San Francisco

Law Library

436 CITY HALL

No. 197791

EXTRACT FROM RULES

Rule 1a. Books and other legal material may be borrowed from the San Francisco Law Library for use within the City and County of San Francisco, for the periods of time and on the conditions hereinafter provided, by the judges of all courts situated within the City and County, by Municipal, State and Federal officers, and any member of the State Bar in good standing and practicing law in the City and County of San Francisco. Each book or other item so borrowed shall be returned within five days or such shorter period as the Librarian shall require for books of special character, including books constantly in use, or of unusual value. The Librarian may, in his discretion, grant such renewals and extensions of time for the return of books as he may deem proper under the particular circumstances and to the best interests of the Library and its patrons. Books shall not be borrowed or withdrawn from the Library by the general public or by law students except in unusual cases of extenuating circumstances and within the discretion of the Librarian.

Rule 2a. No book or other item shall be removed or withdrawn from the Library by anyone for any purpose without first giving written receipt in such form as shall be prescribed and furnished for the purpose, failure of which shall be ground for suspension or denial of the privilege of the Library.

Rule 5a. No book or other material in the Library shall have the leaves folded down, or be marked, dog-eared, or otherwise soiled, defaced or injured, and any person violating this provision shall be liable for a sum not exceeding treble the cost of replacement of the book or other material so treated and may be denied the further privilege of the Library.

V. 3457

3457

United States Court of Appeals

NINTH CIRCUIT

NO. 22036

N
O

2
2
0
3
6

WALTER F. KEYS,

Appellant,

vs.

WALTER DUNBAR, et al.,

Appellee.

APPELLANT'S OPENING BRIEF

FILED

NOV 1 3 1967

WM. B. LUCK, CLERK

WALTER F. KEYS
316 Travelers Building
3600 Wilshire Blvd.
Los Angeles, California 90005
Telephone: 388-7119

Appellant In Pro Per

TOPICAL INDEX

TABLE OF AUTHORITIES CITED

[illegible]

[illegible]

[illegible]

NO. 22036

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

WALTER F. KEYS,

APPELLANT,

VS.

WALTER DUNBAR et al.

APPELLEE.

APPELLANT'S OPENING BRIEF

STATEMENT OF PLEADINGS AND FACTS
DISCLOSING BASIS OF JURISDICTION

The Appellant is presently constructively a prisoner being held for an act made criminal by the State of California in violation of his rights secured by the United States Constitution.

> Article 14 of the Constitution of the United States "be deprived of life, liberty without due process of law" nor deny to any persons within its jurisdiction the "equal protection".
>
> Article 5 of the Constitution of the United States "due process of law". The aim of due process is to provide an impartial trial under established rules of judicial procedure whenever "life, liberty or property is at stake".
>
> Article 9 of the Constitution of the United States. This amendment further emphasizes that the Constitution is designed to serve the people and to "protect them" in the proper exercise of their rights.

The Appellant is presently denied of his sacrad heritage and to have the right of life, liberty and the pursuit of happiness, whereby he was never free to exercise his constitutional rights to a hearing in order to expunge the fraudulant conviction from the record. "The fact that a prisoner has served his full term does not render 'moot' the questions presented on an appeal" nor does it bar his rights to hearing to clear his name". Byrnes, In re; 2 6 c 2d 824; 161 p2d 376, 824. See also People V Chamness, 109 Cal App Supp. 778 (288 P.20) In re; Lincoln, 102 Cal App 733 (283 P965) 18 A.L.R. 867, 872.

Boykin V Huff, 121 F. 2d 865. "Petitioner alleged that he had been deprived unconstitutionally of an appeal. Briggs V White 32 F. 2d 108. Three years after judgment of conviction was entered. Also, Robinson V California 370 U.S. 660, 8 L. Ed 2d 758, 82 S. Ct. 1417; (1962) was heard after death of Petitioner.

Appellant was sentenced to prison by the Superior Court of California, City and County of os Angeles, case number assigned to the information charging Appellant with (3) counts in violation of section 274 of the California penal code, being 216093.

Sentence was imposed on December 31, 1959, and said sentence being 6 months to 5 years on each count, sentence to run concurrent with each other.

Appellant pleaded "not guilty" as to each and every count.

Prior to sentence of the instant case a "motion for continuance" was discussed in courts chambers (R.T. on appeal P. 55), motion was denied.

Thereafter an appeal was taken from the judgment and conviction and is reported in 187 Cal app 2d 246; on the forth day of January, 1960.

The Appellant was imprisoned in the county jail during the time of his appeal (Record P.P. 188, 207, 208, 211, 212) since October 26, 1959.

Appellant, while in prison at San Quentin, (a maximum security prison) and without the aid of transcript or his evidence filed, sixteen or more petitions from error corror

coram nobis to error coram vobis and unsuccessfully to secure Habeas Corpus relief, in the Superior Court, District Court of Appeal and the Supreme Court of the State of California.

Petition for a Writ of Habeas Corpus was filed in the United States District Court pursuant to 28 U.S.C. §2254, on October 30, 1963.

The Writ was never issued. Appellant appeals from the United States District Court,

1.) Opinion and order of March 10, 1964

2.) Order of March 25, 1964

3.) Memorandum Opinion and order of April 17, 1964

4.) Order of June 24, 1964

5.) Proposed order of February 21, 1966

6.) Order of January 26, 1967

and all other issues set forth in the record.

This Court has jurisdiction to review the judgment of the United States District Court pursuant to 28 U.S.C. §2253.

STATEMENT OF FACTS

The facts of the instant case, for the purpose of appeal are set forth in the following paragraphs.

In the information filed by the District Attorney of Los Angeles,County, the Appellant was charged in counts one and two with the crimes of abortion committed upon Marcell Allen on December 10, 1958, and January 17, 1959; and in count three with the crime of abortion committed upon Laurie N. Scott, on March 12, 1959. (cl. tr. P.P. 1 to 3, by reference)

Appellant was arraigned and moved to dismiss the in-

formation, penal code section 995 of California, on June 16, 1959, and the motion was denied. (Ref. cl. tr. P.P. 4 and 5 inclusive) Appellant pleaded "Not guilty" on June 22, 1959, and the case was set for trial on July 21, 1959. The Appellant and all counsel waived "trial by jury" and it was stipulated that the case be submitted on the testimony taken at the preliminary hearing, each side reserving the right to offer "additional evidence" as counsel desired to present. (Ref. cl. tr. Page 7 inclusive) Case was continued to August 24, 1959. On this date, the court on its own motion, continued the case to Friday, September 11, 1959, (ref. cl. tr. Page 8)

On September 11, 1959, case was again continued on motion of Appellant because "his witnesses were absent", to October 6, 1959, reference (cl. tr. page 9). On October 6, 1959, People's witnesses ill; on motion of the people, case was continued to October 26, 1959. Reference (cl. tr. Page 10)

The court found the Appellant guilty on all three counts of abortion, reference, (cl. tr. Page 11).

Appellant was then taken to jail and returned to the court on November 25, 1959, where a substitution of attorneys was made, reference (cl. tr. Page 12).

On December 31, 1959, motion for continuance was denied, probation denied and Appellant was sentenced to state prison for the term prescribed by law on each count, the sentences as to each count to run concurrently with each other, reference (cl. tr. Page 13).

Appellant requested release from jail to take care of his daughter. Appellant had been in jail 72 days and promised

[illegible]

his daughter he would take care of her while her mother was in the hospital, reference made (Reporters Transcript on appeal case no. 216093, pages 55 and 56 inclusive.) The request was denied. His counsel at that time, Edward I. Gritz, quote,

> "I have read the probation report. I don't agree with it. Seems to be some reason the police officer in this case doesn't like the defendant. He was never convicted of anything and defendant doesn't have any prior record".

(Reference made Reporter's Transcript on appeal case no. 216093, Pages 56 and 57 inclusive) order removed.

The District Court of Appeal of the State of California, Second Appellate Division Three, affirmed the judgment of conviction. (See 187 Cal. app 2d 246)

SPECIFICATION OF ERROR

(1) Incompetency, negligence and ineffective or lack of trial counsel in violation of Fifth, Sixth and Fourteenth Amendment of the United States Constitution.

(2) Incompetency, negligence and ineffective or lack of counsel before sentence and on appeal in violation of Fifth, Sixth, Seventh and Fourteenth Amendment of the United States Constitution.

(3) Conspiracy on the part of trial attorney in allowing this conviction, resulting in denial of a fair and impartial trial under Article Five and Six of the Constitution of the United States.

(4) Use of perjured testimony to secure a conviction, in violation of Due Process clause of Fourteenth Amendment.

(5) Appellant was denied a hearing of his Petition for a Writ of Habeas Corpus in violation of Fifth, Ninth and Fourteenth Amendment of the United States Constitution.

(6) Defective indictment or information in violation of the United States Constitution of the Fourteenth Amendment.

(7) Defective sentence in violation of the United States Constitution Amendment Fourteen - and 654 of the California Penal Code.

(8) The Court was required to conduct a full evidentiary hearing to establish the existence of the facts set forth in the allegations in the Petition.

[illegible]

ARGUMENT

I

INCOMPETENCY, NEGLIGENCE AND INEFFECTIVE OR LIKE OF TRIAL COUNSEL IN VIOLATION OF FIFTH, SIXTH AND FOURTEENTH AMENDMENT OF THE UNITED STATES CONSTITUTION.

In Brubaker vs. Dickson, 310 F2d30 (1962), Page 33 (1 - 2) states that "allegations of fact outside the trial record must be considered in determining whether the Petitioner alleged a denial of Appellant's constitutional rights to the effective aid of counsel. A contrary rule would fall short of protecting this right".

When inadequate representation is alleged, the critical factual inquiry ordinarily relates to matters outside the trial record.

a.) "whether the defendant had a defense which was not presented".

b.) "whether trial counsel consulted sufficiently with the accused and adequately investigated the facts and the law".

c.) whether the omissions charged to trial counsel resulted from inadequate preparation rather than from unwise choices of trial tactics and strategy.

If the Petition, including Appellant's allegation of fact outside the trial record, present grounds which would entitle Appellant relief, he should be afforded an opportunity to support

his allegations by proof, (3) see

In Palmer vs. Ashe, 342, 137, 138, 72S. Ct. 191, 96 L. Ed. 154 (195)

In Hawks vs. Olson 326, U.S. 271, 274, 278, 66 S. Ct. 116, 90 L. Ed. 61 (1945)

In Jones vs. Huff 80 U.S. App D.C. 254, 152 F 2d 14, 16, (1945)

In Luce vs. Overlade, 244, F 2d 68 (111), the Court held that there was ineffective representation by counsel when the attorney is "so lacking in diligence and competence that the accused is without representation and the trial is reduced to a sham".

In Turner vs. Maryland, 303F 2d 507 (511), the Court said that requirement of effective counsel is not satisfied if the lawyer makes merely a perfunctory appearance and does nothing whatsoever before or during the trial to advise his client or protect his rights.

The Court in Schaber vs. Maxwell, 348 F. 2d 664 (669), quoted [illegible]is vs. U.S. 356 U.S. 674, in which it was held that "represe[illegible]on in the role of an advocate rather than that of Amicus Curia is required".

In Coplan vs. United States 191F 2d 749 at 760. The Circuit Court of Appeal of Washington, D.C., in reversing the judgment of conviction against "Juddy Coplan", said: "a defendant in a criminal case may not be legally found guilty except in a trial in which his constitutional rights are scrupulously observed, no conviction can stand, no matter how overwhelming the evidence of guilt, if the accused is denied the "effective assistance of counsel or any other element of due process of law" without

[illegible]

which he cannot be deprived of "life or liberty".

In Dodd vs. United States 9 Cir 1963 321 F. 2d 240 and the cases cited therein, "conduct of attorney must be so incompetent as to make the trial a farce".

In Grand Grove vs. Garbadi Grove 1900 130 C 116 62 P. 486, 80 AM Rep 80, "If it was left to the defendant to determine the competency of cousel, then the defendant would not need counsel in the first place and that is why we have decisions as follows:"

In McKinney vs. United States, 1953 C.A.D.C., 208 F. 2d 844. The right to representation by counsel is a right requiring strict protection of the courts.

In People vs. Massey, 1955 137 Cal. 2d 623, "Desertion of a client is inexcusable".

In Gross vs. Gould, 131 Mo. A;;. 585, 110 SW 672, "Where attorney falsely stated that the defendant didn't care to contest".

In Crawford vs. Williams, 1851 1 Swan (Tenn) 341, " Defendant had a meritorious defense but conferred with an attorney who did not give it proper attention".

In Gadsden vs. United States, 1955, 96 U.S. App. D.C. 162, 223 F2d 627, the court held "the court's duty to protect accused rights against defective counsel".

In Powell vs. Alabama, 287 U.S. 45, is what might be called the landmark of the law on state cases involving counsel and outlines duties of both counsel and the courts.

Appellant's attorney of record, F. Fernandez Solis, at the

trial, undertook and faithfully promised and agreed to represent Appellant as his attorney in Case No. 216093. Prior to the trial, Appellant employed said attorney under an oral and written agreement, to represent him in the above cited case. Attorney agreed to represent Appellant in a proper, skillful and diligent manner. Appellant had a meritorious and sufficient defense to said action. Appellant's attorney of record before and at the trial, was incompetent, negligent and ineffective as attorney for Appellant as follows:

a.) at the time of trial and before trial, counsel of record, having relevant and material evidence in support of Appellant's defense, failed and neglected to offer same to the trial court. (Record P.P. 185, 186, 187, 190, 193, 194, 195, 196, 197)

b.) trial counsel failed to present alibi evidence relating to all the counts in the information. Appellant instructed and informed counsel of said alibi evidence. (Record P.21 line 10 - 16)

c.) trial counsel failed to present material witnesses relating to the offense charge in all counts. Appellant instructed and informed counsel of said witnesses before trial. (Record P.22 line 14 - 20. Also, P. 181, 182, 183, 184 and 185)

d.) trial counsel failed or neglected to subpoena evidence and witnesses for Appellant's defense. Trial counsel was aware of both witnesses who could testify and prove by their testimony that

[illegible]

Appellant was not in the state at the time the crimes were committed. (Record P. 22, line 14 and Page 181, 182, 183) also, Page 184 and 185, where it shows the name of the police officer, Robert Herrera, on the face of the registration card of the Riviera Hotel in Nevada. (Record P. 185)

f.) trial counsel failed to cross-examine witnesses for the prosecution, never objected to leading questions, or to the conflicts of evidence, or to any pertinent points. Said attorney otherwise represented the Appellant in an ineffective and incompetent manner.

g.) trial counsel not only suppressed the evidence to the trial court, but also suppressed and failed to give up the evidence to the new attorney of record, Edward I. Gritz, (Record: P. 189, line 21 to end,) or to anyone else. (Record: P. 21, line 29 through 32, and P. 22 line 1 through 3)

h.) trial counsel abandoned his client. (Record P. 188 line 1 through 14)

As a proximate result of said conduct of the attorney, Appellant has been convicted, sentenced and confined and will continue to suffer until this fraudulent conviction has been expunged.

Said attorney negligently performed his duties as attorney for Appellant in that said attorney failed to follow Appellant's

instruction to proceed with his defense and to call witnesses and introduce all the evidence before the court, so that it could determine all the facts in the case.

On October 26, 1959, at the time of trial, said attorney left the court room after judgment was pronounced and abondoned Appellant. (Record Page 188 line 8 through 14). After said date, Appellant was removed to county jail and said attorney failed to make arrangements to visit Appellant and gave no explanation to anyone and took the transcript of the preliminary hearing and all Appellant's evidence with him. When a substitution of attorney had been made, this evidence was not released to the new attorney of record and when he was asked why, his reply was that he could not find the evidence or had misplaced it. (Record Page 14 line 31 and Page 15 line 1 and 2)

Each ground set forth in itself indicates an independant violation of the constitutional rights of the Appellant.

Certainly the lack of advocacy as occured in this instance, is so blatent and apparent on its face will cause one to wonder whether the appearance of Appellant's "counsel" was not in fact on behalf of the prosecution. Therefore, the Appellant alleges, that the lack of proper representation of his counsel at the trial and before trial, was one of the misapprehensions of the effect of him being found guilty of a crime he could not possibly commit.

INCOMPETENCY, NEGLIGENCE AND INEFFECTIVE OR LIKE OF COUNSEL BEFORE SENTENCE AND ON APPEAL IN VIOLATION OF FIFTH, SIXTH AND FOURTEENTH AMENDMENT OF THE UNITED STATES CONSTITUTION.

"Article 5 of the Constitution of the United States"

"Nor be deprived of life, liberty, or property without due process of law".

"Article 6 of the Constitution of the United States"

The sixth amendment enumerates specific rights and that is, to have compulsary process for obtaining witnesses in his favor and to have the assistance of counsel for his defense, and to be informed of the nature and cause of assusation.

"Article 14 of the Constitution of the United States"

"No state shall make or inforce any law which shall abridge the priviledges or immunities of citizens of the United States, nor shall any state deprive any persons of life, liberty or property without due process of law, nor deny to any persons within its jurisdiction, the equal protection of the law."

NOTE:

Cases relied upon as to this ground are set forth and cited in Appellant's first cause of action and need not be repeated here.

On or about November 25, 1959, Appellant employed attorney Edward I. Gritz to represent him in the instant matter before this court.

At all times mentioned, Appellant's counsel undertook and faithfully promised and agreed to represent Appellant as his attorney in this action, in a proper, skillful and diligent manner.

On or about December 31, 1959, at the date the probation hearing and before sentence in this instant case, the Appellant instructed his attorney, Edward I. Gritz, to move for a new trial on legal grounds that relevant and material evidence to establish Appellant's innocence of the crimes charged was not presented at the trial. Said attorney negligently performed his duties as attorney for Appellant as follows:

a.) Said counsel failed to follow instructions to move for a new trial;

b.) Said attorney offered no legal cause why judgement sould not then be pronounced;

c.) said counsel filed an opening brief for Appellant Record P.P. 199 through 205, in connection with an appeal in said action;
said opening brief failed to contain any reference to count three of the charge of abortion contained in said action, although the Appellant was convicted and sentenced on each of the three counts charged. Record P.P. 200 through 205.
Attorney's failure to make reference to count three, makes it a very serious error; an error

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

sufficient for a reversal;

d.) said counsel failed to file a closing brief on behalf of Appellant Keys, and

e.) said counsel failed to present argument in support of said appeal.

At all times mentioned, Appellant reposed his trust and confidence in said counsel and relied upon his integrity, skill, prudence and diligence. That the action of said counsel was done secretly and was fraudulently concealed from the Appellant while he was in county jail. Record: P.P. 207, 208, 212

Appellant states that each one of the irregularities set forth in itself are independant violation of the constitutional rights of Appellant.

III

CONSPIRACY ON THE PART OF TRIAL ATTORNEY IN ALLOWING THIS CONVICTION, RESULTING IN DENIAL OF A FAIR AND IMPARTIAL TRIAL UNDER ARTICLE 5 AND 6 OF THE CONSTITUTION OF THE UNITED STATES.

Counsel of record at the time of trial, had in his possession documented proof that Appellant was in another state at the time of the mission of the crime as alleged in count two and three. Record P.P. 185, 186, 187, 193, 194, 195, 196, 197. Said evidence being a letter from the management of a large corporation (Record P. P. 194, 197) and the aforesaid evidence that the Appellant was in that state on the dates of counts two

and three. That the Appellant conveyed this knowledge to his counsellor along with other facts,

a.) that the Appellant was in the company of a sergeant at the Los Angeles Police Department as shown in exhibit. Record P. 185. Said police sergeant testifying under oath and at a later date, signed an affidavit to this effect. Record P. 184.

b.) that the Appellant had also conveyed knowledge to counsel of record of a material witness who would rebut and challenge the testimony of the state's main witness in count one and two. Said witness, at a later date, signed and submitted her affidavit (Record P.P. 181, 182, 183). The affidavit, if examined, will show and disprove the testimony of the prosecutrix in counts one and two. This witness was not subpoena.

Appellant made many requests to the attorney of record (Record P.P. 23 and exhibits not numbered but enclosed in the Record after Page 23) for his affidavit which would recite that he did not subpoena my witnesses which were present earlier and were absent on October 6, 1959, (Record 191), and that he forward to me my evidence. Appellant's counsel ignored his request. Further that this evidence was mailed directly to counsel of record in sufficient time for trial. It was this evidence which was to have been used at the trial.

Denial of a fair and impartial trial, Amrine v Fine, 131 F 2d, 827 - 832).

"Article 5 of the Constitution of the United States"

"Nor be deprived of life, liberty, or property without due process of law".

The aim of due process is to provide an impartial trial und-der established rules of judicial procedure whenever life, liberty or property is at stake.

"Article 6 of the Constitution of the United States"

The sixth amendment enumerates specific rights and that is to have compulsory process for obtaining witnesses in his favor and to have the assistance of counsel for his defense.

IV

USE OF PERJURED TESTIMONY TO SECURE A CONVICTION, IN VIOLATION OF DUE PROCESS CLAUSE OF 14TH AMENDMENT.

In Darcy vs. Handy, 130 Fed Supp 270, 224 F 2d 504.

Appellant submitted to the various courts the evidence and affidavits, Record P.P. 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, and 208, of persons whom would disprove the testimony used in securing the conviction

Appellant submitted this evidence along with a petition of Habeas Corpus in and for the County of San Luis Obispo.

Said court having jurisdiction over the locale and place of detention of Appellant praying that this court go into the whole matter and review the evidence that was not previously presented. This was denied.

Appellant did then, on May 17, 1963, file an appeal on this

petition with the Appellant Court, re: 2 Crim 9114, this was denied June 3, 1963. However, informal and notwithstanding the technicalities involved, Appellant believes that when the evidence supports the allegations, these technicalities and informalities should not afford justification for ignoring the high traditions of justice; therefore allowing a layman the benefit of the broader scope on the interpretation of these faults. The courts refused to consider this evidence in violation of the 14th Amendment of due process clause.

V

APPELLANT WAS DENIED A HEARING ON HIS PETITION FOR A WRIT OF HABEAS CORPUS IN VIOLATION OF FIFTH, NINTH AND FOURTEENTH AMENDMENT OF THE CONSTITUTION OF THE UNITED STATES.

"Article 5 of the Constitution of United States".

"Nor be deprived of life, liberty or property without due process of law" "to provide an impartial trial under established rules of judicial procedure".

"Article 9 of the Constitution of United States".

"that this Article further emphasizes that th the Constitution is designed to serve the people and to protect them in the proper exercise of their rights".

"Article 14 of the Constitution of United States".

"Nor shall deprive any persons of life,

[illegible]

liberty, or property, without due process of law".

"Nor deny to any person equal protection of the law".

In Assmann vs. Fleming, C.C.A. Neb. 1947, 159 F2d 332.

"Fraud and circumvention in obtaining a judgment are ordinarily sufficient gounds for vacating a judgment, particularly if party was prevented from presenting merits of his case".

In Dausuel vs. Dausuel, 1952, 195 F2d, 774 90 U.S. App.D.C. 275.

"Court may at any time set aside judgment for --------after discovered fraud upon the court".

In Bratnover vs. Illinois Farm Supply Co., Minn. 1958, 169 F. Supp. 85.

"In order to set aside a prior judgment, proving parties make it clearly appear that they have a good defence to action, and by fraud, mistake or like equitable basis, they were deprived of their day in court".

In Seria vs. Badger Mert. Ins. Co., C.A. Mass. 1959, 266 F2d 418.

"Petitioner is entitled to relief under subdivision (b) of Rule 60 U.S.A. C. 28 Federal Code of Civil Procedure, dealing with relief from judgment or order in case of mistake, inadvertance excusable

neglect, newly discovered evidence, FRAUD, etc."

Note #24

"Judgment obtained through fraud, misrepresentation or other misconduct should be vacated by the use of this rule and such rule is remedial and should be liberally construed - Id."

In Parker vs. Cheeker Taxi Co., C.A. Ill., 1956, 238 F2d 241.

"Inherent right of court to vacate judgment for fraud".

In Darr vs. Burford, 339 U.S. 200 Constitutional Clause 2, of the U. S. Article 1, Section 9,

"Gives the prisoner a right to have judicial inquiry in the court of the United States into the very truth and substance of the cause of his detention and where facts dehor the record which are not open to consideration upon appeal are alleged to show a denial of constitutional rights a judicial hearing must be granted to ascertain the truth or falsity of the allegation".

Appellant alleges he was denied his right to a hearing on his Petition for Habeas Corpus, that the Appellee employed fraud upon the court to keep it in error as to the facts, so that the Appellant may never be free to exercise his constitutional rights to a hearing in order to expunge the fraudulent conviction from the record.

The Appellee in his response, (Record P. 15 line 2 through 5 and P. 15 line 15 through 19), specifically refers to Edward

I. Gritz' affidavit.

The Appellant alleges that the Appellee deliberately asserted falsehood to the court as to Edward I. Gritz' affidavit, (an affidavit the Appellee never received). Appellant submits to this honorable court a clear and truthful affidavit of Attorney Edward I. Gritz herein and refers to Record P. 188, specifically line 22 to 32 inclusive.

Said affidavit was presented in the Appellee's response as being "material presumptive evidence" and therefore considered "Purjured testimony", where no affidavit was produced to the court nor to the Appellant. (Record P. 134 line 22 through 30).

Appellant alleges that the failure of the adverse party to mail the affidavit makes the hearing a sham and a prejudice one where it was influenced by "Fraudulant intent or mistake", a violation appellant's rights under Constitution clause of "Fair and impartial".

Appellant states that the use of perjured testimony was the basis of the denial on Appellant's Petition for a Writ of Habeas Corpus, and also claims that said fraudulant practice is inexcusable, negligence on the part of the Appellee and a clear showing of violation of the 5th and 14th Amendment.

Appellant states that the statements made by the Appellee in his response in feference to Edward I. Gritz' affidavit are false and knowingly to be false by him and was used to misguide and mislead the Federal District Court.

Appellant views with alarm the many references made by

Appellee's response to Appellant's Petition for a Writ of Habeas Corpus as to the affidavits of counsels of record. One affidavit Appellant never received, nor was ever written. (Record P. 134 line 22 through 30). The other (a statement purporting to be under oath, but in fact, was nothing more than a declaration which was made under penalty of purjury). Record P.P. 20, 21, 22 and 23.

It would appear doubtful that the court would consider this evidence, but it did, and in doing so, it denied the Appellant equal protection of the law, because a declaration is not in accordance to the rules regarding evidence before the Federal District Court. Appellant states that the court has taken as unfair advantage of him and his Petition for a Writ of Habeas Corpus whereby Appellant could not refute "evidence" of the Appellee's response he has never received, a clear showing of violation of the 14th Amendment.

> "Any violation of any personal right by either party would be against due process of law. A hearing should be according to the established laws and methods that maintain essential rights is the essence of this amendment."

VI

DEFECTIVE INDICTMENT OR INFORMATION IN VIOLATION OF THE CONSTITUTION OF UNITED STATES OF THE FOURTEENTH AMENDMENT.

Penal Code of the State of California, 664 states

"every person who attempts to commit any crime, but fails, or is prevented or intercepted in perpetration thereof, is punishable where no provision is made by law for the punishment of such attempts, as follows:

Subd: (2) Offense punishable by less than five years. If the offense so attempted is punishable by imprisonment in the state prison for any term less than five years, the person guilty of such attempt is Punishable by imprisonment in the county jail for not more than one year."

In People vs. Crain, 1951, 228, P 2d 307, 102 C.A. 2d 566, "In prosecution of osteopathic physician and surgeon for attempting to commit abortion and conspiracy to commit abortion, evidence was insufficient to corroborate testimony of prosecutrix"

In Frye vs. Settle, 168 F. Supp. 7, "the court held that there can be no conviction or punishment for a crime without a formal and sufficient accusation.

Under penal code of California, §274, providing that the substantive offense of abortion is punishable by imprisonment in the state prison "not less than two nor more than five", the maximum sentence for abortion is five years, and the punishment for attempt to commit abortion would be two and a half years under penal code §664 Sub (1).

In People vs. Superior Court, 116 Cal. App 412, 414, 415 (2P. 2d 843), it was held that subdivision 1 of section 664, "provide for punishment for an attempt to commit a substantive crime at one half of the maximum punishment prescribed for the crime itself". See also Ex parte Hope, 59, Cal 423. On the other hand, the language used in the title and body of subdivision 2 of section 664, is identical in that if the offense is punishable by "less than five years".

In view of the clear wording found in the body of subdivision 1 and 2 of section 664 of the penal code, Appellant contends that said statue is clearly applicable in this instant case, as follows:

a).indictment or information to be valid, it must allege all the facts necessary to bring the case within statutory definition.

Appellant alleges that the information or indictment does not contain the requirements to warrant a suspicion strong enough to show guilt of the crime of abortion under §274 of the Penal Code of California. In this instant case, there was nothing to prove intent as provided by §21 of the Penal Code of California. There was no evidence shown to manifest the circumstances connecting Appellant with the offense. There was no evidence of having any instruments, medicines, drugs, nor anything at all to connect the Appellant with the crime of abortion. (Cl. Tr. on Appeal No. 216093, P.9, line 20 through 26 and P. 10, line 1 through 9)

In this case, the testimony of the prosecution testified

she was not pregnant and that the test she took to determine pregnancy, was negative. (Cl. Tr. P. 10 line 1 through 9) Therefore, Appellant can say that count I and II was no more than an attempt to produce a miscarriage. However, on Page 10, line 10 through 16, Cl. Tr., the prosecutrix's states that her menstraul periods stopped sometime in October, never the less, this is not proof that she was pregnant.

Statement of facts. In reference to the information that was filed in respect to count I and II, charging the Appellant with the crime of abortion (under Penal Code §274 of California) committed upon Marcella Allen on December 10, 1958, and January 17, 1959, the prosecutrix testified that on December 10, 1958, she had a conversation with Ann Strendler concerning her pregnancy and as a result of this conversation, she met a Joy Gangle and on the same evening, she met the Appellant, whereupon she and the Appellant went to Appellant's office where she claims the abortion was performed on her. She further testified she saw the Appellant again on December 26, 1958, that Appellant met her on Pico at Western Avenue and from there, the Appellant took her to his office a second time and attempted to abort her. She also testified that the Appellant attempted to abort her the third time on January 17, 1959, and on this occasion, she was accompanied by Joy Gangle, and that she later went to the hospital where they completed the abortion.

Appellant served the maximum term of five years, preceded by one year in the county jail, a total of six years.

The information charges an offense not shown to exist

[illegible]

either by information or indictment at the time of arraignment in Superior Court was in derogation of Appellant's constitutional rights.

VII

DEFECTIVE SENTENCE IN VIOLATION OF THE CONSTITUTION OF UNITED STATES AMENDMENT FOURTEEN.

In People vs. Kehoe (1949) 33, Cal 2d 711, 713, (704 P2d 321)

In People vs. Knowles (1950) 35 Cal 2d 175, 187 (217 P2d 1)

> "Section 654 of the California Penal Code, prohibits double punishment of the commission of a single act".

Double punishment or multiple punishment, under the Penal Code of California §654, by prohibiting multiple punishment, this portion of the code prohibits subsequent prosecution for "the same act or omission" resemble the protection of the double jeopardy doctrine except that the Penal Code of California, §654 becomes available only after there has been "an acquital or conviction and sentence".

In re: John Wellington Johnson on Habeas Corpus: (Crim. No. 10193. In Bank December 2, 1966) "The basic principle that forbids multiple punishment for one criminal act precludes infliction of more than one punishment for a series of acts directed toward one criminal objective.

In People vs. Quinn, 61 Cal 2d 551, 555, (39 Cal Rptr 393 P 2d 705)

In People vs. Tidmen, 57 Cal 2d 574, 585, (21 Cal Rptr 207, 370 P2d 1007)

In People vs. Logan, 41 Cal 2d 279, 290, (260 P2d 20)

states "the basic principle that forbids multiple punishment for one criminal act".

West's annotated California Codes, Article 1, Section 13, Clause 4, Note 6, "Where it appears from the definition of two offenses that all elements of one are included in the other, a conviction of the latter offense is also a conviction of the former, within meaning of Constitution's provision relating to double punishment for the same offense.

In People vs. Mc Llvain (1943) 130 P 2d 131, 55 C.A. 2d 322, Penal Code of California, 654.

In People vs. McDaniel, (1957) 154 C.A. 2d, 475, 316 P2d 660. "The state cannot split up one crime and prosecute it in several parts and a defendant cannot be convicted and punished for two distinct crimes growing out of the same identical act. See also People vs. Mendoza (1943) 131, P. 2d 662, 55 C.A. 2d 625.

In Darlington vs. Turner, 202 U.S. 195, 26 Supp. Ct. 630, 50 L. Ed 992. Also in U.S. vs. Pulcston, 106, Fed. 294, 45 C.C.A. 297, states, "In the determination of issues involving life, liberty or property, and a statue creating a presumption, which is entirely arbitrary and which operates to deny a fair opportunity to repel it --- or to present facts pertinent to one defense, is void and its findings is clearly erroneous, it may be disregarded".

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Appellant argues that penal code, section 654, applies to the two convictions as charged in counts I and II of the information. Appellant relies upon <u>Amendment 6</u>, Rights of the Accused in Criminal Cases and <u>Amendment 5 and 14</u> of the Federal Constitution of the United States and California Constitution, <u>In re Sacramento Legal Press</u>, March 7, 1967,

> "multiple sentence forbidden by Section 654, whether consecutive or concurrent, imposed excessive punishment beyond the power of the Sentencing Court and can be corrected on Habeas Corpus".

Cases cited:

<u>In Neal vs. State of California</u>, 1960) 55 Cal 2d 11, 16-17;

<u>In re Cruz</u>, (1960) 64 Cal 2d 178, 181;

<u>In re Ward</u>, Supra, 64 Cal 2d 672;

<u>In re Romano</u> (1966) 64 Cal 2d 826;

<u>In re Ponce</u> Supra 65 A.C. 375;

<u>In re Henry</u> Supra 65 A.C. 351

Appellant was charged and convicted in count I and II for the crimes of abortion in violation of Section 274 of the Penal Code of California. In this instant case, the Appellant argues that, whereby two charges were filed in pursuance of the one agreement to procure the miscarriage, the various things done by Appellant were done upon different days, they were all done in pursuance of one agreement and to accomplish one particular purpose.

Punishment for two offenses arising from the same act is <u>prohibited by the constitutional and common - law rule against</u>

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

multiple punishment for necessarily included offenses,

In People vs. Kehoe, 33 Cal 2d 711, 713 (204 P. 2d 321) Section 654 Penal Code of California, "providing that an act or omission which is made punishable in different ways by different provisions of this code, may be punished under either of such provisions, but in no case can it be punished under more than one, prohibits double punishment for commission of a single act unless one is necessarily included within the other. See: People v. Smith (1951) 224 P. 2d 719, 36 C.2d 444.

VIII

THE COURT WAS REQUIRED TO CONDUCT A FULL EVIDENTIARY HEARING TO ESTABLISH THE EXISTENCE OF THE FACTS SET FORTH IN THE ALLEGATION IN THE PETITION.

In Townsend vs. Sain, 372 U.S. 293 (317), the courts said "If, for any reason not attributable to the inexcusable neglect of Petitioner evidence crucial to the adequate consideration of the constitutional claim was not developed at the state hearing, a federal hearing is compelled".

In Carroll vs. Turner, 262 F. Supp. 486, "the court held that where the federal Habeas Corpus Petition set forth facts indicating the sentence was void and subject to collateral attack, an evidentiary hearing must be held where he had to receive a full and fair evidentiary hearing on this point in the state court at the time of trial or in a collateral proceeding where the facts set forth were in dispute".

In Fortner vs. Balkeom (Fifth Circuit 7/7/67), "the Court said that where substantial constitutional questions are presented which are unrefuted, the Court should duly consider their validity and not dispose of the Petition in a perfunctory manner.

In Jones vs. Cunningham (1963) 371 U.S. 236 L. Ed.285, 83 S. Ct. 373, 92 A.L.R. 2d 675, "the Court held that the Writ of Habeas Corpus in the United States District Court was a proper remedy to test the legality of the State Court, judgment of conviction while prisoner was on parole from the state prison.

In Robinson vs. California, 370 U.S. 660, 8 L. Ed 2d 758, 82 S. Ct. 1714, (1962) Was heard after death of Petitioner.

This court has the authority to grant a full judicial hearing to ascertain the truth or falsity of the allegations: In Darr vs. Burford, 339 U.S. 200, 208, 94 L. Ed. 761, 769, 70 S. Ct. 587. Also, A (Denial of a hearing will not expunge the fradulent conviction from the record) 28 U.S.C. 2254.

In Massey vs. Moore, 348 U.S. 105, 99 L. Ed. 135, 75, S. Ct. 145; Frislie vs. Collins, 342 U.S. 519, 96 L. Ed. 541, 72 S. Ct. 509. Also: Petitioner's Allegation if true, could present serious questions under the Fourteenth Amendment and those allegations would therefore entitle him to a hearing.

Massey Vs. Moore (U.S.) Suprs. Pennsylvania ex. rel. Herman vs. Claudy, 350 U.S. 116, 100 L. Ed. 126, 76 S. Ct. 223.

I think that it is appropriate at this time to elaborate the consideration which ought properly to govern the grant or denial of evidentiary hearings in Federal Habeas Corpus procedings.

The broad consideration bearing upon the proper interpretation of the power of the Federal Courts on Habeas Corpus are reviewed at length in the Court's opinion in Fay vs. Noia, 9 L. Ed. 2d 837, and need not be repeated here.

It must be pointed outtthat the historic conception of the writ anchore in the ancient common law and in our Constitution as an efficacious and imperative remedy for detention of fundamental illegality has remained constrant to the present day.

[illegible]

The act of February 5, 1867 C 28, Section I, 14 Stat 385-386 which is extending the Federal Writ to state prisoner described the power of the Federal Courts to take testimony and determine the facts De Novo in the largest terms - Fay vs. Noia, 9 L. Ed. 855. The hearing provisions of the 1867 Act remain substantially unchanged in the present codification 28 U.S.C. Section 2243.

In construing the mandate of Congress so plainly designed to afford a trial type proceeding in Federal Court for state prisoners aggrieved by unconstitutional detentions. The Supreme Court has consistently upheld the power of the Federal Courts on Habeas Corpus to take evidence relevant to claims of said detention, Frank vs. Mangum, 237, U.S. 309, 331, that court has recognized that Habeas Corpus in the Federal Courts by one convicted of a criminal offense is a proper procedure "to safeguard the liberty of all persons within the jurisdiction of the United States against infringement through any violation of the Constitution" even though the events which were alleged to infringe did not appear upon the face of the record of his conviction. Hawk vs. Olson, 326 U.S. 271, 274, 90 L. Ed. 61, 64, 66 S. Ct. 116 Brown vs. Allen and numerous other cases have recognized this: State prisoners are entitled to relief on Federal Habeas Corpus, to argue and present evidence must never be totally foreclosed. See Frank vs. Mangum 237 U.S. 309, 345-350, 59 L. Ed. 969, 987-989, 35 S. Ct. 582 (dissenting opinion of Mr. Justice Holmes).

[illegible]

The Act of February 5, 1867, affording State prisoners a forum in the Federal Trial Courts for the determination of claim of detention in violation of the Constitution. The language of Congress, the history of the Writ, the decisions of the Supreme Court all make clear that the power of inquiry or Federal Habeas Corpus <u>is</u> <u>plenary</u>.

Therefore, where an applicant for a Writ of Habeas Corpus alleges facts which, if proved, would entitle him to relief, the Federal Court to which the application is made has the <u>power to receive evidence and try the facts anew</u>.

In <u>Brubaker vs. Dickson</u>, 310 F 2d 30 (1962) Page 33 (1-2) states that allegations of fact outside the trial record must be considered in determining whether the Petitioner alleged a denial of Appellants constitutional rights to the effective aid of counsel. A contrary rule would fall short of protecting this right.

The opinions in <u>Brown Vs. Allan</u> - is this:

Where the facts are in dispute, the federal court in Habeas Corpus must hold an evidentiary hearing if the Habeas Applicant did not receive a full and fair evidentiary hearing in a state court, either at the time of the trial or in a collateral proceeding. In other words, a federal evidentiary hearing is required (372 U.S. 313) unless the state court trier of fact has after a full hearing reliable found the relevant facts.

THERE CANNOT EVEN BE THE SEMBLANCE OF A FULL AND FAIR HEARING UNLESS THE STATE COURT (372 U.S. 314) ACTUALLY REACHED

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

AND DECIDED THE ISSUES OF FACT TENDERED BY THE DEFENDANT. IF RELIEF HAS BEEN DENIED IN PRIOR STATE COLLATERAL PROCEEDINGS AFTER A HEARING BUT WITHOUT OPINION, IT IS OFTEN LIKELY THAT THE DECISION IS BASED UPON A PROCEDURAL ISSUE, THAT THE CLAIM IS NOT COLLATERALLY COGNIZABLE - AND NOT ON THE MERITS.

The United States Supreme Court holds that a Federal Court must grant an evidentiary hearing to a Habeas applicant under the following circumstances; (In opinions in Brown vs. Allan)

1.) the merits of the factual dispute were not resolved in the state hearing;

2.) the state factual determination is not fairly supported by the record as a whole;

3.) the fact finding procedure employed by the state court was not adequate to afford a full and fair hearing;

4.) the material facts were not adequately developed at the state court hearings;

5.) there is a substantial allegation of newly discovered evidence;

6.) for any reason it appears the state trier of the fact did not afford the Habeas applicant a full and fair factual hearing.

In this instant case, each one of the above mentioned irregularities set forth occured.

CONCLUSION

The correlation of the material facts in substance alone

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

supports Appellant's allegations in his application for a Writ of Habeas Corpus, wherefore, it is respectfully urged that the previous orders of the Court below be reversed in conformity with the applicable decisions herein cited and that the Appellant be granted a full evidentiary hearing and to have the attendance of witnesses and determine the facts as they should have been at the trial, to safeguard the liberty of all persons within the jurisdiction of the United States against infringement through any violation of our great document "the Constitution of the United States", and what other relief this Honorable Court may believe is fair and just under the foregoing circumstances.

Respectfully submitted,

Walter F. Keys

WALTER F. KEYS
Appellant In Pro Per

[illegible]

[illegible]

[illegible]

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Walter F. Keys

WALTER F. KEYS

Appellant In Pro Per

[illegible]

[illegible]

[illegible]

PROOF OF SERVICE BY MAIL
1013a and 2015.5 C.C.P.

STATE OF CALIFORNIA)
) ss.
County of Los Angeles)

I, the undersigned, say: I am and was at all times herein mentioned, a citizen of the United States and employed in the County of Los Angeles, over the age of eighteen years and not a party to the within action or proceeding; that

My business address is 215 West Fifth Street, Los Angeles, California 90013, that on November , 1967, I served the within APPELLANT'S OPENING BRIEF (Keys v. Dunbar - No. 22036) on the following named parties by depositing a copy thereof, enclosed in a sealed envelope with postage thereon fully prepaid, in the United States Post Office in the City of Los Angeles, California, addressed to said parties at the addresses as follows:

Clerk, U. S. District Court
Central District of California
312 North Spring Street
Los Angeles, California 90012

Thomas C. Lynch, Attorney General
State of California
600 State Building
Los Angeles, California 90012

I declare under penalty of perjury that the foregoing is true and correct.

Executed on November , 1967, at Los Angeles, California.

____

Orig. & 20 copies to: United States Court of Appeals, For the Ninth Circuit
United States Courthouse and Post Office Building
7th & Mission Sts., San Francisco, California

Subscribed and sworn to before me
this day of November, 1967.

____

Notary Public in and for
the State of California.

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

NO. 22036

WALTER F. KEYS,	)
Petitioner and Appellant,	)
v.	)
WALTER DUNBAR, et al.,	)
Respondents and Appellees.	)

APPEAL FROM THE UNITED STATES
DISTRICT COURT FOR THE
CENTRAL DISTRICT OF CALIFORNIA

APPELLEE'S BRIEF

THOMAS C. LYNCH, Attorney General
WILLIAM E. JAMES,
Assistant Attorney General
ANDREA SHERIDAN ORDIN,
Deputy Attorney General

Attorneys for Appellee

TOPICAL INDEX

LIST OF AUTHORITIES CITED

NO. 22036

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

WALTER F. KEYS,	)
Petitioner and Appellant,	)
v.	)
WALTER DUNBAR, et al.,	)
Respondents and Appellees.	)

APPELLEE'S BRIEF

JURISDICTION

The jurisdiction of the United States District Court to entertain appellant's Petition for Writ of Habeas Corpus was conferred by Title 28, United States Code section 2241. The jurisdiction of this Court is conferred by Title 28, United States Code section 2253, which makes a final order in a habeas corpus proceeding reviewable in a court of appeals, when a Certificate of Probable Cause has been issued. It should be noted that the transcript of this proceeding reflects the fact that no Certificate of Probable Cause has been issued. On July 7, 1967, it was

ordered that appellant's Application for Leave to Appeal be denied, and it was further certified that it appeared to the Court that the appeal was frivolous and not taken in good faith. (Tr. of Rec. pp. 220-21.)

STATEMENT OF THE CASE

A. Proceedings of the State Courts

In an information filed by the District Attorney of Los Angeles County, the appellant was charged in Counts I and II with the crimes of abortion committed upon Marcell Allen on December 10, 1958, and January 17, 1959, and in Count III, with the crime of abortion committed upon Laurie N. Scott, on March 12, 1959. (Cl. Tr. pp. 1-3.) Appellant pleaded "Not Guilty." (Cl. Tr. p. 6.) Appellant and all counsel waived trial by jury, and it was stipulated that the case be submitted on the testimony taken at the preliminary hearing, with such additional evidence as counsel desired to present. (Cl. Tr. p. 7.) The Court found the appellant guilty on each count. (Cl. Tr. p. 11.) Appellant was sentenced to a state prison for the term prescribed by law on each count, the sentence as to each count to run concurrently with each other. (Cl. Tr. p. 13.)[1/]

---

1. References are to the Clerk's Transcript in the state trial court, a copy of which, although not made a part of this record, was before the trial judge at the time of the Memorandum Opinion and Order of April 17, 1964. (Tr. of Rec. pp. 143, 72.)

ordered that appellant's application for leave to appeal is denied, and it was further certified that it appeared to the Court that the appeal was frivolous and not taken in good faith. (Tr. of Hrg. pp. 122-43.)

STATEMENT OF THE CASE

A. Proceedings of the State Courts

In an information filed by the District Attorney of Los Angeles County, the appellant was charged in Counts I and II with the crimes of abortion committed upon Russell Gillis on December 15, 1959, and January 17, 1959, and in Count III, with the crime of abortion committed upon Laurie D. Quitt, on March 13, 1958. (Cl. Tr. pp. 1-3.) Appellant pleaded "Not Guilty." (Cl. Tr. p. 5.) Appellant and all counsel waived trial by jury, and it was stipulated that the case be submitted on the testimony taken at the preliminary hearing, with such additional evidence as counsel desired to present. (Cl. Tr. p. 7.) The Court found the appellant guilty on each count. (Cl. Tr. p. 11.) Appellant was sentenced to a state prison for the term prescribed by law on each count, the sentence as to each count to run concurrently with each other. (Cl. Tr. p. 12.)[1]

---

1. References are to the Clerk's Transcript in the state trial court, a copy of which, although not made a part of this record, was before the trial judge at the time of the Reasonable Opinion and Order of April 13, 1964. (Tr. of Hrg. pp. 142, 143.)

The judgment of the trial court was affirmed on December 8, 1960, and reported at 187 Cal. App. 2d 246; 9 Cal. Rptr. 537. Subsequent to that time appellant submitted to the various State courts a series of writs of mandate, writs of habeas corpus, and various other petitions between March 15, 1961, to June 17, 1963. (Tr. of Rec. pp. 4-5.)

B. Proceedings in Federal Courts

On October 30, 1963, appellant filed a Petition for Writ of Habeas Corpus in the United States District Court for the Southern District of California, Central Division. The Petition was denied on March 10, 1964, by an order subsequently vacated. (Tr. of Rec. p. 69.) On April 17, 1964, the court ordered that the Petition for Writ of Habeas Corpus be denied. (Tr. of Rec. pp. 72-73.) The opinion appears at 229 F. Supp. 703 (1964).

On June 11, 1964, appellant filed his Application for Notice of Appeal and Application for Certificate of Probable Cause to Appeal and Motion for Leave to Appeal in forma pauperis. (Tr. of Rec. p. 74.) On June 24, 1964, it was ordered that the Application for Leave to Appeal in forma pauperis be denied. It was further ordered that it appearing from the record that there was no substantial ground on which to base an appeal, the Application for Certificate of Probable Cause be denied. (Tr. of Rec. pp. 86-87.)

Appellant filed a Petition to Set Aside and Vacate previous Order on Denial for a Writ of Habeas Corpus and a Motion for Rehearing. (Tr. of Rec. p. 88.) On February 5, 1965, the court having duly considered the motion, it was ordered that the motion be denied. (Tr. of Rec. p. 94.)

On February 8, 1966, appellant filed a Notice for a hearing on his motions (Tr. of Rec. p. 95) to vacate and set aside previous order on denial for a Writ of Habeas Corpus; for rehearing on Petition for Writ of Habeas Corpus; to add Department of Parole as respondent. On February 21, 1966, the above motions and appellant's Motion for Leave to Appeal in forma pauperis and for Certificate of Probable Cause were heard. It was ordered that the motions be denied. (Tr. of Rec. p. 122.)

On March 8, 1966, the court filed its order that petitioner's Motion to Set Aside and Vacate the court's Order of April 17, 1964, and Motion for Rehearing and Motion for Certificate of Probable Cause be denied. (Tr. of Rec. p. 120.)

On December 20, 1966, appellant filed a Motion for Rehearing on Denial for Writ of Habeas Corpus and a Motion to Vacate and Set Aside previous Order on Denial of Writ of Habeas Corpus. (Tr. of Rec. p. 124.) On January 9, 1967, at the hearing of the motion of

petitioner for rehearing and to vacate and set aside the order, petitioner's motion was denied, subject to the court's reading of supplemental points and authorities. The court ordered that if there were anything in the memoranda which altered the court's view the court would make a further order. (Tr. of Rec. p. 162.)

On January 26, 1967, the court having permitted petitioner to file additional Points and Authorities and having reviewed such Points and Authorities, ordered that the Order of January 9, 1967, would remain in full force and effect. (Tr. of Rec. p. 161.)

On July 6, 1967, a certified copy of a Certificate of Discharge and Release of appellant from custody and confinement was filed in the United States District Court. (Tr. on Appeal, pp. 217-18.) On July 7, 1967, it was ordered that appellant's Application for Leave to Appeal in forma pauperis was denied, and it was further certified that it appeared to the trial court from the record in this case that appellant's appeal was frivolous and not taken in good faith. (Tr. of Rec. pp. 220-21.)

STATEMENT OF FACTS

The statement of the facts is sufficiently set forth in the State court opinion, People v. Keys, 187 Cal. App. 2d 246, 247-48; 9 Cal. Rptr. 337.

APPELLANT'S CONTENTIONS

Appellant asserts the following errors:

1. Incompetency, negligence and ineffective or lack of trial counsel in violation of Fifth, Sixth and Fourteenth Amendment of the United States Constitution.

2. Incompetency, negligence and ineffective or lack of counsel before sentence and on appeal in violation of Fifth, Sixth, Seventh and Fourteenth Amendments of the United States Constitution.

3. Conspiracy on the part of trial attorney in allowing this conviction, resulting in denial of a fair and impartial trial under Articles 5 and 6 of the Constitution of the United States.

4. Use of perjured testimony to secure a conviction, in violation of Due Process Clause of Fourteenth Amendment.

5. Denial of hearing of appellant's Petition for a Writ of Habeas Corpus in violation of Fifth, Ninth and Fourteenth Amendment of the United States Constitution.

6. Defective indictment or information in violation of the United States Constitution of the Fourteenth Amendment.

7. Defective sentence in violation of the United States Constitution Amendment Fourteen, and

section 654 of the California Penal Code.

8. Failure of court to conduct a full evidentiary hearing to establish the existence of the facts set forth in the allegations in the Petition.

ARGUMENT

I

THIS COURT HAS NO POWER TO HEAR APPELLANT'S APPEAL

Appellant was released from custody on February 23, 1966. He is no longer under any restriction, constructive or otherwise. All issues raised by petitioner in his Application for Writ of Habeas Corpus are now moot. Parker v. Ellis, 362 U.S. 574, 575-76. In Bonnie v. Gladden, 377 F. 2d 555 (9th Cir. 1967), the appellant similarly completed his sentence and was discharged from confinement without condition or restriction. This Court stated:

> "In light of this development we are without power to deal with the merits of Bonnie's claim under the interpretation of the 'in custody' requirement of 28 U.S.C. § 2241(c) (1) (1964) adopted in Parker v. Ellis, 362 U.S. 574, 80 S.Ct. 909, 4 L.Ed. 2d 963 (1963).
>
> "The case must therefore be remanded to the district court with instructions to vacate the

order appealed from and dismiss the application for habeas corpus."

Respondent concludes that the same result must apply here.

II

ALL OTHER CONTENTIONS RAISED BY APPELLANT ARE WITHOUT MERIT

It is appellee's contention that all allegations of error raised by appellant have been rendered moot. In light of that contention, appellee will not discuss appellant's allegations in detail. For the most part, it appears that appellant's allegations have been answered in prior pleadings which have been made a part of the record. If the Court wishes any further detail than the following references to already prepared responses, appellee will be pleased to prepare additional responses.

A. Appellant Was Adequately Represented by Counsel at the Time of His Trial in the California State Court

Appellant alleges that his counsel was inadequate, and specifies certain specific failures of his counsel. (App. Op. Br. pp. 11-12.) Said contention, although not raised in his appeal in a state court, has been raised several times by appellant and has been answered in appellee's response and by the Opinions of the Court. (Tr. of Rec. pp. 13-16, 71-73, 64-68.)

B. Appellant Was Adequately Represented by Counsel at Time of Appeal

Appellant alleges that he was inadequately represented at the time of the appeal and specifies certain specific "irregularities" which he alleges support his claim. (App. Op. Br. pp. 15-16.)

It appears from the record that appellant has not exhausted his state remedies as to this allegation of error. 28 U.S.C. 2254. It further appears that he has not raised this contention in any prior pleadings in the Federal courts. In any event, he has not alleged any fact which would show his representation at time of appeal was inadequate, nor that he was deprived of the constitutional requirement of "substantial equality and fair process." Anders v. California, 386 U.S. 738, 744; People v. Ibarra, 60 Cal. 2d 460, 464; 34 Cal. Rptr. 863.

C. Appellant's Allegation That His Conviction Was Based in Part Upon Perjured Testimony is Not Supported by the Record

Appellant alleges on page 18 of Appellant's Opening Brief that his conviction was secured by "use of perjured testimony," in violation of the Due Process Clause of the Fourteenth Amendment. Appellant states no facts at this point in his Opening Brief to support such a contention. If, in fact, appellant is referring to the fact that in one of appellee's responses an

affidavit referred to by appellee was not attached (App. Op. Br. pp. 21-22), said matter has been briefed by appellee. (Tr. of Rec. pp. 140-41.) The District Court, after considering written and oral argument on this point as well as others, denied the petitioner's motion. (Tr. of Rec. pp. 162, 161.)

D. Appellant's Allegation that the Information Which Charged Him Was Defective is Without Merit

Appellant alleges that the information charging him with abortion was defective. (App. Op. Br. p. 23.) It does not appear that appellant has ever raised this contention before, either in a State court or in the proceedings of record in the United States District Court. Therefore, appellant has not exhausted his state remedies on this issue. 28 U.S.C. 2254.

In any event, appellant mistakes the purpose of California's accusatory pleading. The only purpose of the information is to give notice to the defendant of the crime of which he is charged. No accusatory pleading is insufficient, nor can the trial, judgment, or other proceeding thereon be affected by reason of any defect or imperfection in matter of form which does not prejudice a substantial right of the defendant upon the merits. Penal Code section 960; People v. Massey, 151 Cal. App. 2d 623, 312 P.2d 365; People v. McCurdy, 165 Cal. App. 2d 592, 332 P.2d 350.

[illegible]

(Supp. [illegible]) [illegible]

ly [illegible]. (Tr. of [illegible]) [illegible]

Court; [illegible]

[illegible]

[illegible] (Tr. [illegible], p. [illegible])

B. [illegible]

Appellant argues that the information charging [illegible] was [illegible]. (Supp. [illegible]) It does not appear that appellant has ever raised this contention [illegible], either in a [illegible] or in any proceeding [illegible] the [illegible] Court. Therefore, appellant has not exhausted his state remedies on this issue. 28 U.S.C. 2254.

In any event, appellant misconceives the purpose of [illegible]'s preliminary hearing. The sole purpose of the information is to give notice to the defendant of the crime he is charged. [illegible] pleading is [illegible], and any [illegible] judgment, or other proceeding [illegible] in [illegible] of [illegible] or [illegible] the [illegible] defendant [illegible]. [illegible] [illegible]

E. Appellant's Claim That He Was Sentenced in Violation of Penal Code Section 654 is Without Merit

Appellant claims he was sentenced in violation of Penal Code section 654. (App. Op. Br. p. 27.)

Again, appellant did not raise his contention in a State court and therefore has not exhausted his State remedies. 28 U.S.C. 2254. The merits of his contention have been fully discussed in appellee's Supplemental Points and Authorities. (Tr. of Rec. pp. 155-159.)

F. Appellant Has Alleged No Facts Which Would Justify the Necessity for an Evidentiary Hearing

Appellant alleges that he was denied a right to an evidentiary hearing. (App. Op. Br. p. 31.) As contended by appellee in the District Court and as held by the District Court, appellant did not raise any issue of fact which would warrant an evidentiary hearing. (Tr. of Rec. pp. 72, 16.) Furthermore, it should be noted that appellant has personally appeared before the United States District Court on two separate occasions and was permitted to argue and present any relevant evidentiary material available. (Tr. of Rec. pp. 122, 162.)

/

/

/

/

CONCLUSION

For the foregoing reasons it is respectfully requested that the judgment of the District Court be affirmed.

THOMAS C. LYNCH, Attorney General
WILLIAM E. JAMES,
Assistant Attorney General
ANDREA SHERIDAN ORDIN,
Deputy Attorney General

Attorneys for Appellee

AO:njc
21 CR LA
67-1548
12-12-67

CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this Brief, I have examined Rules 19 and 18 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion, the foregoing brief is in full compliance with those rules.

ANDREA SHERIDAN ORDIN

ANDREA SHERIDAN ORDIN

No. 22037

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

PURER & COMPANY and PHILLIP PURER,

Appellants,

vs.

AKTIEBOLAGET ADDO and ADDO MACHINE COMPANY, INC.,

Appellees.

APPELLANTS' OPENING BRIEF.

JOSEPH W. FAIRFIELD,
ETHELYN F. BLACK,
ALFRED W. OMANSKY,
8500 Wilshire Boulevard,
Beverly Hills, Calif. 90211
Attorneys for Appellants.

FILED

OCT 9 1967

WM. B. LUCK, CLERK

Parker & Son, Inc., Law Printers, Los Angeles. Phone MA. 6-9171.

TOPICAL INDEX

POINT II. Page

POINT III.

POINT IV.

POINT V.

POINT VI.

INDEX TO APPENDICES

TABLE OF AUTHORITIES CITED

Page

Page

Rules

Statutes

Textbooks

No. 22037

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

PURER & COMPANY and PHILLIP PURER,

Appellants,

vs.

AKTIEBOLAGET ADDO and ADDO MACHINE COMPANY, INC.,

Appellees.

APPELLANTS' OPENING BRIEF.

Preliminary Statement.

This is an appeal by the defendants Phillip Purer, an individual, and Purer & Company, a California corporation [C. T. pp. 737-738] from a judgment entered on May 9, 1967, granting plaintiffs Aktiebolaget Addo, a Swedish corporation, and Addo Machine Company, Inc., a New York corporation, a permanent injunction and further awarding plaintiff Aktiebolaget Addo attorneys' fees and costs in the sum of $36,905.17 [C. T. pp. 676-677].

On this appeal this Court is also asked to review the following non appealable orders [C. T. pp. 737-738]:

1. April 11, 1966. The order of the court denying defendants' motion to compel the plaintiff to fully and completely answer questions on Interrogatories. [C. T. p. 317.]

2. December 12, 1966. The order of the court denying defendants' motion to preclude the testimony of Carl Gronhagen [C. T. p. 555.]
3. December 12, 1966. The order of the court denying defendants' motion for judgment on the second cause of action. [C. T. p. 555.]
4. December 12, 1966. The order of the Court granting plaintiffs leave to withdraw their second cause of action. [C. T. p. 555.]

Statement as to Jurisdiction.

The complaint states three causes of action. However, jurisdiction of the District Court rests only upon the first cause of action which is designated as one for patent infringement under 28 U.S.C.A. 1338. [C. T. p. 2.] Although actually the first cause of action does not involve patent infringement as such but is really a proceeding to determine whether a license agreement entered into between the plaintiff Aktiebolaget and defendant Phillip Purer on April 1, 1965 was a valid agreement, nevertheless the District Court has jurisdiction over the subject matter of the action because it is labelled an action for patent infringement. (*Luckett v. Delpark* (1926), 270 U.S. 496, 502, 510, 46 S. Ct. 397, 401; *Lear Siegler, Inc. v. Adkins* (9th Cir. 1964), 330 F. 2d 595, 599-600.)

The judgment of May 9, 1967 is a final decision, reviewable in this Court. (28 U.S.C.A. 1291.) The intermediate orders which this Court is also asked to review on this appeal are not appealable orders but are merged in the final judgment and thus may be reviewed by this Court on the appeal from the final judgment. (*Atchison, Topeka & Santa Fe Ry. v. Jackson* (10th Cir., 1956), 235 F. 2d 390, 392; *Gilliland v. Lyons* (9th Cir., 1960), 278 F. 2d 56, 58.)

Statement as to the Case.

A. As to the Pleadings.

This law suit was commenced on November 4, 1965 by two plaintiffs, Aktiebolaget Addo, a Swedish corporation, and Addo Machine Company, Inc., a New York corporation, and *both* plaintiffs allege in the complaint the same three causes of action. [C. T. p. 2.]

The first cause of action is for patent infringement, the plaintiffs alleging that the plaintiff Akitebolaget is the owner of U.S. Letters Patents Nos. 2854190 and 2985363; that by written agreement between Aktiebolaget and Addo Machine Company, plaintiff Addo Machine Company is the sole American importer and exclusive distributor of adding machines manufactured by Aktiebolaget embodying the patented inventions [C. T. p. 21]; and that defendants were for some time past and still are infringing upon the letters patent by making, importing, selling and using adding machines embodying the said patented inventions. [C. T. pp. 2-4.]

The second cause of action is for trade mark infringement. Here both plaintiffs allege that plaintiff Aktiebolaget is the owner of the registered trade marks and trade names "Addo" and "Addo-X"; that for more than ten years plaintiffs have employed the trade mark and trade name "Addo" as their entire name or as the first salient and distinctive portion of the name in connection with adding machines manufactured, imported and sold by plaintiffs and their distributors; that plaintiff's adding machines bearing the names "Addo" and "Addo-X" have acquired a wide and valuable reputation as reliable, precision made and well designed adding machines, as a result of which the trade names "Addo" and "Addo-X" have acquired a highly valuable reputation and good will; that defendants are

engaged in manufacturing, importing, selling and advertising for sale in the United States adding machines which are deliberate copies of those adding machines produced and sold by plaintiffs; that plaintiff's use of the phrase "machines for millions" has come to have a secondary meaning to the dealers in and consumers of adding machines so as to identify such products as only those made and sold by plaintiffs and that defendant's advertising "over one million satisfied users" is untrue, and pirated from plaintiffs advertising of "machines for millions" and thus confuses the public into believing that in some way defendants' machine is in some way connected with plaintiff's product. [C. T. pp. 4-6.]

Plaintiffs further allege in their second cause of action that defendants' recital that their adding machine is being produced under a license from plaintiff Aktiebolaget is false and misleading and that such misleading statements have led and will continue to lead persons who are exposed to it to believe that the machines sold by defendants are endorsed by plaintiffs and produced in accordance with plaintiff's methods and thereby give defendants the benefit of the good will and good name of plaintiffs to their detriment and injury. [C. T. pp. 6-7.]

Plaintiffs further allege in their second cause of action that defendants' use of plaintiffs' trade mark and trade name with the advertising their goods for sale constitutes a violation of the Lanham Act. [C. T. p. 7.]

The third cause of action is for unfair competition, in which plaintiffs repeat all of the allegations of the second cause of action and further allege the name "Addo" has acquired a secondary meaning with the public and is identified solely with the plaintiff's product; that the defendants had actual knowledge of said

secondary meaning and their conduct constitutes unfair competition against plaintiffs. [C. T. pp. 7-8.]

In answering, the defendants denied that they were infringing upon the plaintiff's letters patent or their trade mark, or competing unfairly with the plaintiffs. [C. T. pp. 198-199.] As a special affirmative defense the defendant Phillip Purer alleged that on April 1, 1965, he entered into a written agreement with the plaintiff, Aktiebolaget Addo, whereby and wherein the said Akitebolaget for royalty payments licensed the said Purer to use the patented items in his adding machines. [C. T. p. 199.]

Plaintiffs challenged this defense by contending that the license agreement of April 1, 1965 was procured by the fraudulent conduct of Purer, and that upon the plaintiff ascertaining the true facts, rescinded the agreement and that as a result thereof there was no valid contract existing between Aktiebolaget or any of the defendants and that the use of the patented invention by defendant Purer after the rescission constituted an infringement of the letters patent *ab initio*. Thus, the case was not one of patent infringement but validity of a contract [R. T. 12/12/66, p. 11] for if the license was valid, Purer certainly had a right to use the patented items. It is well established that a valid license agreement is a perfect defense to an action for infringement.

> *De Forest Radio Tel. & Tel. Co. v. U.S.* (1927, 273 U.S. 236, 241-242; 47 S. Ct. 366, 367, 368);
>
> *Anthony Co. v. Perfection Steel Body Co.* (6th Cir. 1963), 315 F. 2d 138, 141;
>
> *Talbot et al. v. Quaker-State Oil Ref. Co.* (3rd Cir. 1939), 104 F. 2d 967, 968.

The validity of the patents was not questioned.

On December 12, 1966, the defendants moved the Court for judgement on the second cause of action, contending that since the marks "Addo" and "Addo-X" were merely descriptive, they were not registerable as such and asked that the Court declare the marks invalid and direct the Commissioner of Patents to cancel the same. [C. T. p. 484.] No oppostion was interposed to the motion but instead plaintiffs asked leave to withdraw their second cause of action on the grounds that their discovery proceedings had revealed no instance of trade mark violation. [R. T. 12/12/66, p. 7.] Defendants objected. Plaintiffs had instituted this cause of action in which they sought affirmative relief, treble damages, a preliminary and permanent injunction [C. T. p. 8] and had already obtained a preliminary injunction [C. T. pp. 249-250] and defendants were entitled to an adjudication of this cause of action. The court denied defendants' motion for judgment on the second cause of action and granted plaintiffs' motion for leave to withdraw the second cause of action. [C. T. p. 555.]

The third cause of action was for unfair competition in that the defendants' use of the name "Addo" constituted unfair competition. Again, no decision was rendered on the allegations set forth in the third cause of action, but over objection ruled that the use of plaintiffs' patented items by defendants after notice of rescission of the contract of April 1, 1965 could also constitute unfair competition. [Item 4, C. T. p. 548; R. T. 12/12/66, pp. 14-19.]

B. The Contentions and Issues.

The primary issue, of course, is the one determining the validity of the license agreement of April 1, 1965. The factual issue from plaintiffs' side was whether for some years prior to 1965, Tokyo Electric Co., a sub-

sidiary of Toshiba had been manufacturing in Japan substantially exact mechanical copies of certain of plaintiff Aktiebolaget's adding machines, embodying their patents [C. T. p. 537]; and whether Aktiebolaget has been diligently engaged in attempting to stop the manufacture by Tokyo Electric Co. of adding machines which were copies of plaintiff Aktiebolaget's adding machines [C. T. pp. 537-538]; the alleged fraud of defendants in inducing plaintiff to enter into the agreement of April 1, 1965 [C. T. pp. 538-539], plaintiff contending that if it had known that the defendant Purer contemplated distributing a machine manufactured by Tokyo Electric Co. it would never have granted the license agreement of April 1, 1965 to defendant [C. T. p. 539], and having discovered the fraudulent representations of defendant Purer, it was justified in rescinding the agreement of April 1, 1965. [C. T. p. 540.]

Plaintiff also contended as a factual issue that defendant was guilty of false advertising which constituted unfair competition. [C. T. pp. 540-541.]

Defendants' factual contentions were that there was no fraud; that at the time Aktiebolaget granted defendant Purer its license agreement, it was fully aware of the fact that the adding machine would be manufactured by Tokyo Electric Co., that in June of 1965 Gunnar Agrell, the president of Aktiebolaget had several conferences with his brother, George Agrell, the president of plaintiff Addo Machine Co. and that as a result of said conferences it was decided to void the license agreement of April 1, 1965 and a charge of fraud was then developed to accomplish this cancellation. [C. T. pp. 542-543.]

C. The Trial.

To establish its two causes of action of fraud and unfair competition, plaintiffs produced five witnesses and 70 exhibits. Testifying in behalf of the plaintiffs were Gunnar Agrell, the president of Aktiebolaget, George Agrell, the president of Addo Machine Co., Sven Sundquist, a former employee of plaintiff Aktiebolaget and plaintiff Addo Machine Co. and now employed by Western Addo-X, a California corporation, all of whose outstanding stock is owned by said George Agrell; Carl Gronhagen, president of Western Addo-X, and Neal Pinyon, an adding machine distributor for Western Addo-X.

Approximately 20 of plaintiffs' exhibits consisted of alleged correspondence between plaintiff Aktiebolaget and Tokyo Electric Co., Aktiebolaget and its agent Lindoteves-Jacoberg; and letters from dealers to plaintiff Addo Machine Co. and Western Addo-X. No attempt was made to authenticate any of this correspondence; no witnesses were produced from Toyko Electric Co. or Toshiba or from Lindeteves-Jacoberg to establish that such correspondence actually took place or that a dispute actually existed between Tokyo Electric Co. and Aktiebolaget, and over objection [R. T. pp. 68-72] they were received into evidence for the limited purpose of explaining why the plaintiffs acted the way they did. [R. T. p. 75.] No dealer was produced to establish the contents of any of their letters, or that they even wrote them, and of course, no consumer was called to testify that they ever purchased an adding machine of the defendants believing it to be a product of plaintiffs. Even the defendant Phillip Purer was not called as a witness. (Fed. Rules Civ. Proc., Sec. 43(b).)

Upon the conclusion of plaintiffs' case the defendant also rested contending that plaintiffs failed to sustain their burden of proof to establish any of the issues

raised by the pleadings and the pre-trial order. [R. T. pp. 437-438.]

The trial court, however, concluded that plaintiff Aktiebolaget had unsuccessfully attempted to prevent Tokyo Electric Co. and its parent company, Toshiba, from infringing on their patents; that plaintiff had no knowledge of Tokyo Electric Co. until June of 1965; that defendant Purer had wilfully concealed his relationship with Tokyo Electric Co. from plaintiff Aktiebolaget in soliciting a license agreement, that the license agreement of April 1, 1965 was procured by fraud and that its rescission by Aktiebolaget was justified.

The Court also found that defendant's advertising methods constituted unfair competition, that defendant's use of plaintiff's patents constituted infringement and unfair competition and rendered judgment for the plaintiffs, including a permanent injunction.

The court also found that this was an exceptionally complex patent infringement case, requiring great skill in its presentation, entitling plaintiff Aktiebolaget to an award of attorney's fees in the sum of $33,000.00 plus costs in the sum of $3,905.17, and awarded plaintiffs judgment in the sum of $36,905.17.

D. Statement as to the Facts From the Findings.

The facts in this cause as taken from the findings are as follows [C. T. pp. 590-604]:

Aktiebolaget Addo is a Swedish corporation, having its principal place of business in Malmo, Sweden. Since 1918 it has been engaged in the business of manufacturing adding machines and business machines which are sold throughout the world, including the United States. For the years 1962 through 1966 their sales amount to more than 122 million dollars. In addition,

during that period of time they spent over 4 million dollars on engineering and research work. As a result of this engineering and research program the adding machines bearing the name "Addo" have developed a valuable reputation in the United States and throughout the world.

Aktiebolaget is also the owner of U.S. Letters Patents No. 2854190 which was duly issued to it on September 30, 1958; and No. 2985363 which was duly issued to it on May 23, 1961. Both patents embody improvements in adding machines used in its basic model 341E and the validity of these patents have been conceded by defendants.

Addo Machine Company is a New York corporation, having its principal place of business in New York, N.Y. and is the exclusive importer into the United States and distributor in the United States of the products manufactured by Aktiebolaget and has the exclusive right to use the name "Addo" in the United States. The wholesale value of sales of Addo Machine Company's products in the United States for the period commencing February 1, 1962 and ending January 31, 1967 has been in excess of 19 million dollars. In addition, Addo Machine Company's expenditures for advertising and publicity in the same period has been in excess of $430,000.00. Addo Machine Company distributes the product through a network of approximately 800 dealers and in addition conducts numerous courses designed to instruct mechanics employed by adding machine dealers in the servicing and repair of the Addo adding machine.

Defendant, Purer & Company, is a California corporation having its principal place of business in Los Angeles, California. It was organized in June, 1964, under the name of Tokyo Electric Company, Interna-

tional, and filed its certificate with the Secretary of State of California changing its name to Purer & Company on December 8, 1964. In February, 1965, it received permission from the California Commissioner of Corporations to issue 100 shares of its stock and 100 shares were issued in March, 1965.

Defendant, Phillip Purer, is an individual and also a member of a partnership doing business as Purer & Company. No certificate of doing business under a fictitious name has been filed for the partnership.

Defendants are engaged in the business of importing from Japan and selling in the United States business machines, including adding machines and calculating machines.

In 1960 a subsidiary of the Japanese Toshiba combine manufactured in Japan substantially exact mechanical copies of plaintiff's 341E mechanism, including the inventions disclosed in Aktiebolaget's patents. This adding machine bore the model no. 4001 and was made of inferior materials which resulted in slower operation, shorter useful life and greater frequency of repairs. Aktiebolaget protested the manufacture of the Japanese copy and made its protest through the Swedish Export Association, the Swedish Embassy in Japan and a Dutch firm named Lindeteves-Jacoberg, N.V., its agents in Japan.

Thereafter Aktiebolaget was advised that Toshiba claimed that the machine of manufacture was the product of independent design, whereupon plaintiff Aktiebolaget purchased a Toshiba 4001 adding machine, made detailed photographs of the Toshiba 4001 mechanism and of the comparable parts of its 341E mechanism, which showed the identity of the mechanism. Plaintiff Aktiebolaget thereupon sent the copies to its agents in Japan to be used in further efforts to halt the production of the Japanese copy.

Aktiebolaget wrote Toshiba in the spring and again in the summer of 1964 requesting further information about discontinuance but received no reply.

Aktiebolaget would not willingly have permitted the Toshiba 4001 adding machine to be sold in the United States or in any country where Aktiebolaget held patents disclosing inventions employed in the Toshiba 4001 adding machine.

Defendant Phillip Purer visited the Toshiba facilities in Japan on several occasions prior to November 27, 1964. On at least one occasion he saw the Toshiba model 4001 adding machine and requested that he be allowed to import and sell in the United States such adding machine. He was informed by Toshiba that Aktiebolaget held patents on such adding machines and that it could not be sold in the United States without plaintiff Aktiebolaget's permission. Defendants thereupon embarked upon a course of conduct designed to obtain by fraudulent means a license to use plaintiff Aktiebolaget's U.S. patents.

On November 27, 1964, defendants wrote to plaintiff Aktiebolaget requesting that they be granted a license to use plaintiff Aktiebolaget's U. S. Patents Nos. 2854190 and 2985363. [Ex. 20.] On December 17, 1964 plaintiff Addo answered defendant's request stating that it would be willing to grant a license to use the two patents and set forth the terms and conditions under which such license would be granted [Ex. 21]. On December 21, 1964 defendants replied to the letter of December 17th. [Ex. 22.] On March 17, 1965 after some delay due to problems in obtaining a form of patent license and revisions and translation into English of the license form by Aktiebolaget's president, a patent license signed by Aktiebolaget was sent to defendant. [Ex. 26.] On April 14, 1965

defendants replied and acknowledged the receipt of the proposed license and requested some modifications therein. [Ex. 25.] By letter dated May 18, 1965, plaintiff Aktiebolaget agreed to the modification of the license [Ex. 27], and on June 2, 1965, defendants returned to plaintiff Aktiebolaget a fully executed copy of the license as modified. [Ex. 28.]

The license was obtained by false and fraudulent representations of the defendant in that Exhibits 20, 22, 25 and 28 were false and fraudulent in each of the following respects, among others:

1. The adding machine which defendants intended to sell in the United States was not an adding machine to be manufactured by or under the control of defendants. Defendants intended to import the Toshiba copy of the Aktiebolaget adding machine which had been in production in Japan for approximately 15 years.

2. Defendants had not just completed or otherwise done the engineering or prototype of an adding machine as claimed in Exhibit 20.

3. The design to which defendants referred to did not bear some similarity to Aktiebolaget's patents as was claimed in Exhibit 20; it was a virtually exact copy of the Aktiebolaget 341E adding machine in both its patented and unpatented features.

4. "Our proposed adding machine" referred to in Exhibit 22 was not an adding machine belonging to defendants and was not a "proposed" adding machine; it was a Toshiba copy of the Addo adding machine and it was in production.

5. Although Aktiebolaget does have United States patents for devices employed in adding machines other than the two aforesaid patents, only the two afore-

said patents are employed in the Addo 341E adding machine and its copy, the Toshiba 4001 adding machine. There were no "other patents" that defendants might employ in their "proposed" machine as claimed in Exhibit 22.

6. The representation in Exhibit 25 that "our production will be very small in which we expect to produce approximately 300 machines per month, starting in May of this Year" was false and fraudulent in that it was not defendant's production but Toshiba's production and the adding machine was not commencing a small amount in May 1965, but had been in production in substantial amounts since 1960.

Each of these false and fraudulent representations was made with knowledge of its falsity and that Aktiebolaget should rely thereon; Aktiebolaget did rely upon such representations in entering into the patent license agreement and Aktiebolaget would not have entered into such patent license had it known that defendants had not designed an adding machine of their own but were intending to import the Japanese copy of the Aktiebolaget machines.

Had Aktiebolaget been informed that the true name of defendant Purer and Company was Tokyo Electric Company International on November 27, 1964, a name showing a Japanese connection, it would have made inquiry as to the nature of the machine claimed to have been designed by defendants and as to the identity of its manufacturer. Tokyo Electric Company is the English name of the subsidiary of Toshiba. Although Aktiebolaget did not know of the name of Tokyo Electric Company until June, 1965, they did know of it under its Japanese name of Tokyo Denki and knew that Tokyo Denki was a Toshiba subsidiary manufacturing a copy of model 341E.

In June, 1965, defendants caused Tokyo Electric Company model 4011 adding machine to be advertised at a business machines show in Chicago and represented that such machine was manufactured under license from Addo. Tokyo Electric Company model 4011 adding machine was the same as Toshiba 4001 adding machine except that the case had been redesigned. Tokyo Electric Company model 4011 displayed and advertised by defendants bore the label TEC and was given model no. 7001 in defendants' advertising of such machine.

Plaintiffs purchased a TEC 7001. Over 90% of the parts of TEC 7001 are identical in size, shape and design with similar parts of Aktiebolaget's 341E to the extent that they are interchangeable between the TEC 7001 and the Aktiebolaget 341E. On June 21, 1965, Aktiebolaget received a copy of the brochure for the TEC 7001 adding machine upon which brochure appeared the name Purer & Company. [Ex. 33.] On June 21, 1965 Aktiebolaget made inquiries of defendants as to the source of TEC 7001, to which defendants replied that the TEC 7001 was manufactured by Tokyo Electric Company, a subsidiary of Toshiba. [Ex. 35.] In July, 1965, plaintiff Aktiebolaget learned through a Dun & Bradstreet report that defendant Purer & Company's correct name on November 27, 1964 was Tokyo Electric Company, International and not Purer & Company.

On July 22, 1965 Aktiebolaget gave timely and effective notice of rescission of the license agreement and returned to defendants all consideration given therefor; justified by the false and fraudulent representations defendants had made to obtain the license agreement and by the concealment of defendants' true intentions and the concealment of the correct corporate name of the defendant Purer & Company at the time the li-

cense was requested. Notwithstanding the notice of rescission of the license agreement, defendants thereafter imported into the United States and offered for sale the TEC 7001 adding machine.

In defendants' sale of TEC 7001 adding machine, they stated to adding machine dealers throughout the United States by a letter dated September 30, 1965 [Ex. 60] that the new TEC machine was manufactured under a license agreement dated April 1, 1965 between the A. B. Addo Co. of Malmo, Sweden and Purer & Company, which agreement authorized the defendants to manufacture and sell the machines under Aktiebolaget's letters patent; that this statement was false and misleading advertising and representations in that no such license to copy the adding machine had ever been granted by Aktiebolaget and moreover, Aktiebolaget would only have authorized defendants to use the two patented devices, not to build a particular adding machine.

That defendant's advertising and representations that its TEC adding machine had "over 1,000,000 satisfied users" was false, and further that at the time of such representation Aktiebolaget had manufactured more than 1,000,000 business machines and used the advertising slogan "Machines for Millions".

TEC 7001 adding machine was inferior in quality of construction and performance to that of plaintiff's 341E adding machine which it copied; was made of inferior materials and would not be as long lived as the 341E and would be subject to repeated and numerous mechanical failures.

The letters of September, 30, 1965 [Ex. 52] were intended to and did create confusion among plaintiff's dealers as to the sponsorship endorsement by plaintiff of the TEC 7001; it was intended to inform said dealers thay they would not have to undertake further

training of their mechanics or to acquire further stocks of spare parts or special tools for the service of the TEC 7001 adding machine; and that while the 7001 adding machine was little more than half the price of Aktiebolaget's 341E adding machine, it was intended to convey the impression that it was authorized and endorsed by the plaintiff Aktiebolaget and therefore of comparable quality to the 341E adding machine and that Exhibit 60 was an effort to trade upon the good name acquired by Aktiebolaget and Addo Machine Company to their substantial expense and effort.

That defendants' fraudulent conduct in obtaining the patent license and intentional patent infringement after such license had been rescinded, made this an exceptional case in which an award to Aktiebolaget of its attorneys' fees and expenses should be granted.

From these findings the Court concluded that the license agreement between Aktiebolaget and Purer and Company was rescinded by the Notice of July 22, 1965 [Ex. 40], which rescission was justified by the false and fraudulent representations made by defendant and that its importation and sale of adding machines incorporating Aktiebolaget's patented inventions constituted patent infringement *ab initio* and that defendants' importation and sale of adding machines after the notice of rescission [Ex. 40] and its advertisement and representation of the connection between the TEC 7001 machines and Aktiebolaget constituted unfair competition.

The Court also stated as a Conclusion of Law that

> "The extraordinary circumstances of this case, involving defendants' fraudulent conduct in obtaining the patent license and knowing infringement of (Aktiebolaget's)

> Addo's patents when such license was rescinded, entitled Addo (Aktiebolaget) to recover its attorney's fees and other reasonable expenses incurred in this law suit in addition to costs." [Conclusion of Law No. IX; C. T. p. 604.]

Before entering judgment on April 27, 1967, the Court filed its own memorandum of supplemental findings of fact and conclusions of law and order and found that proofs by the plaintiffs of the patent infringement committed by the defendants depended upon proof that the license under which the defendants purported to operate was obtained by fraud; that the same proof constituted an integral part of the cause of action for unfair competition and that the services of the plaintiffs' attorneys would not substantially have been lessened if only the patent infringement count had been litigated. The Court further found and took into consideration that this was a complex case requiring extreme experience, quality and skill in the trial thereof and $33,000.00 was the reasonable value of the services of plaintiffs' attorneys which should be charged to defendants, plus an additional sum of $3,905.17 for costs. [C. T. pp. 668-671.]

Judgment was thereupon entered accordingly. [C. T. pp. 676-677.]

As stated, the above facts are taken from the findings. However, most of the findings contain unauthorized legal conclusions or assumptions and are not supported by the evidence as will hereinafter be demonstrated (Appendix B). Moreover, an examination of the record discloses a set of facts entirely different from that found by the Court, and since this set of facts is supported by the evidence we submit it to the Court.

E. Statement of Facts From the Record.

Aktiebolaget, a Swedish corporation, is a world-wide organization [R. T. p. 16]; engaged in the business of manufacturing, selling and distributing adding machines, including in the United States. [R. T. p. 13]. The business was founded in 1918 by Hugo Agrell. [R. T. pp. 12-13.] Gunnar Agrell and his brother George were shareholders in Aktiebolaget [R. T. pp. 169-170] but sold their shares when Aktiebolaget became a member of the Odhner Facit group. [R. T. pp. 169-170.]

Addo Machine Company is a New York corporation. All of its shares of stock are owned by George Agrell and he has been its president since 1950. [R. T. pp. 261-262.] Addo Machine Company is the sole distributor of the Aktiebolaget products in the United States. [R. T. pp. 26, 174.]

Western Addo-X is a California corporation, Although it is operated in New York. [R. T. p. 263]. George Agrell also owns all of its stock [R. T. p. 263] and Carl Gronhagen is its president [R. T. p. 319.] Western Addo-X is not a party to this action.

Aktiebolaget is the owner of U.S. Letters Patent Nos. 2854 190 and 2985 363 which pertain to patented devices used on an adding machine. On November 27, 1965, Mr. Phillip Purer, in writing, solicited the use of the patented items. [Ex. 20]. This letter, as all subsequent letters from Purer, shows the picture of a plant and underneath it in clear print the words "NEW MODERN FACILITY IN OHITO." The plant is a three-story building, 23 window frames in length plus an extention containing three more window frames in length and two window frames in depth. Between the main building and the extension, the width of a window frame, the photograph shows a four story

edifice. On one side, on the fourth story and standing above the tops of the two buildings clearly visible are the letters "TEC". On the adjoining side, also clearly visible, are four ideographs or Kanji. Also shown on this photograph is a two train tramcar, roads, an overhead pass, trees and background. This picture is approximately 6½ inches in length and approximately 2 inches in height and takes up practically the entire lower quarter of the letter head of Purer and Company.

Prior to the receipt of Exhibit 20 on December 1, 1965, Gunnar Agrell had never heard of Purer & Co. [R. T. pp. 83, 201.] But he did know from his experience, that Purer & Co. would have to produce a minimum of 10,000 machines a year to make the enterprise worthwhile. [R. T. p. 209.] This requires a plant of approximately 16,500 square feet, when some of the parts are subcontracted out [R. T. p. 246] and a working force of approximately 300 people. [R. T. p. 173.]

On December 1, 1964, when he received Purer's request for a license, what he had in mind was that Purer would sell more machines containing the patents than his brother [R. T. pp. 200-201], but he paid no attention to the picture on the correspondence [R. T. pp. 93, 186-187]; and even though he wrote over the letters "TEC" he did not see them [R. T. pp. 188-189] nor did he notice the statement "NEW MODERN FACILITY IN OHITO".

Thereafter on December 17th, Gunnar Agrell wrote to Phil Purer suggesting a royalty of 30 cents on each machine predicated on the sale of a minimum of 20,000 machines per annum. [Ex. 21; R. T. p. 195.] From his experience Gunnar Agrell also concluded that the factory price per machine would approximate $100.00 [R. T. p. 195], which would mean an expenditure by

Purer of approximately $2,000,000.00 per year [Ex. 21; R. T. p. 196.] Gunnar Agrell had never heard of Purer & Company, and although he expected him to sell a minimum 20,000 machines a year as against his brother who distributed an average of only 16,500 per year [R. T. p. 199] and knew that the machines would have to be made somewhere, he did not take into consideration Mr. Purer's facilities to manufacture the adding machines [R. T. p. 201], and he made no inquiries of Purer as to who would be the manufacturer for Purer. [R. T. pp. 206-207.]

On December 21st, Phillip Purer again wrote to Aktiebolaget replying to Gunnar Agrell's letter of December 17th accepting the 30 cents per unit royalty, but suggesting that the license agreement provide for a minimum royalty predicated on 10,000 machines per annum. [Ex. 22.] Using Gunnar Agrell's price of $100.00 cost per machine, this would still mean an annual production cost of $1,000,000.00. [R. T. pp. 208-209.] In addition Mr. Purer stated in his letter of December 21st that the license agreement be made ". . . In the name of Purer & Company or *'the manufacturer for Purer & Company'* ". [Ex. 22, emphasis added.] Again Mr. Gunnar Agrell did not look at the picture on the letter [R. T. p. 204] and made no attempt to inquire who the manufacturer was that Purer referred to in Exhibit 22, since it was quite common in this industry to have subcontractors for different things [R. T. p. 206], nor did he associate the statement in Exhibit 22 "the manufacturer for Purer & Company" with the printing on Exhibit 22 "NEW MODERN FACILITY IN OHITO" despite the fact that he wrote over both the photograph and the statement. [Ex. 22; R. T. pp. 204-206.]

In any event, Gunnar Agrell, himself, and without any aid from Purer & Co. prepared the license agree-

ment [Ex. 26; R. T. pp. 211-212] and it is to be particularly noted that, although the license agreement refers to Purer & Co., nothing is stated about any corporation; and Paragraph 8 of Exhibit 26 indicates that an individual is involved and not a corporation. [Ex. 26, R. T. p. 212.]

Moreover Gunnar Agrell inserted in Paragraph 8 of the license agreement. [R. T. p. 213];

> "The manufacturer for the License has the right to use the patents but the Licensee is responsible to the Licensor for the manufacturer's being bound by all the terms, covenants and conditions of this agreement to be performed by him."

The executed copy of this agreement was received by Mr. Gunnar Agrell on April 20, 1965 and again he did not read the statement "NEW MODERN FACILITY IN OHITO" and again did not look at the picture. [R. T. pp. 233-234.]

George Agrell of Addo Machine Co., the exclusive distributor of Aktiebolaget's products in the United States, was never informed by his brother Gunnar of the license agreement given to Purer [R. T. p. 218] and George Agrell first heard about it in June of 1965, when Martin Waisbran, at the request of Carl Gronhagen read it to him over the telephone. [R. T. pp. 278, 333.]

In June of 1965 an exchange of information took place betweeen Gunnar and George regarding the license agreement [R. T. pp. 219-220] after which they agreed to cancel the license agreement of April 1, 1965. [R. T. p. 225]. Pursuant to this agreement Mrs. Alma Flesch, the attorney for plaintiff Addo Machine Company, and who had also been consulted by plaintiff Aktiebolaget [Ex. 40, R. T. p. 230], wrote to Purer on June 30, 1965 informing him that the agreement

of April 1, 1965 was invalid because it was based upon his misrepresentations and thus furnished no basis for license rights. [Ex. B.]

Although on June 30, 1965, George Agrell had already informed Purer that the license agreement was cancelled because of his misrepresentations (Exhibit B) Gunner Agrell however, was still looking for an excuse to rescind the license agreement [R. T. pp. 222-223], for on the following day, July 1, 1965 he wrote to Purer inquiring whether his company is

> ". . . fully or partially owned by Toshiba, any subsidiary company to Toshiba or any other Japanese company?" [Ex. 37.]

Gunnar Agrell received a direct answer to this query, namely "no" and that

> "Purer & Company is a privately owned corporation and is free to represent any companies that they so desire." [Ex. 38.]

Although Purer suggested that they discuss any differences that Mr. Gunnar Agrell felt existed [Ex. 38], Gunnar Agrell declined to do so and proceeded to rescind the license agreement not on the grounds that Purer & Co. was in any way connected with Toshiba as stated in Exhibit 37, but because that:

> "Among such misrepresentations were the nature of your company and the existence of an intimate link with Japanese interests engaged in unauthorized copying of our machines which we have attempted to stop through appropriate channels in Japan." [Ex. 40.]

In the recital of these facts from the record, there has been deliberately omitted any reference to a dispute, if any such dispute existed, between Aktiebolaget and Tokyo Electric Co. or Toshiba regarding alleged copying of Aktiebolaget's patents by Toshiba or unau-

thorized use of their patents, for the reason that there was *no* evidence to support such a claim. Exhibits 8-11 and 13-16 were not offered in evidence as to the truth of their contents but only for the limited purpose of explaining why plaintiffs acted the way they did [R. T. pp. 38, 72, 75-79,] and the Court so understood it. [R. T. pp. 38, 70.] Moreover, the Court further stated that it would *not* decide this case on the facts asserted in any letters. [R. T. p. 76.]

Regarding unfair competition, the evidence is that the *exterior* of plaintiff's and defendant's machines were not at all similar and easily distinguishable [R. T. pp. 366-368]); and although the parts in the interior of both machines are identical and at least 90% interchangeable [R. T. p. 374], nevertheless no evidence was offered that the interchangeable parts and interior design of the machine belongs exclusively to plaintiff or is in any way associated with plaintiff, and, of course, not a single person was produced to testify that they ever purchased defendants' machine believing that they were acquiring plaintiff's product.

Moreover, the dealers' letters [Exs. 53-57 and 61-65] showed no confusion [R. T. p. 307] and were admitted into evidence only for the purpose of showing the state of mind of these dealers. [R. T. pp. 307-309, 345.]

Under this state of facts the plaintiffs did not sustain their burden of establishing by clear and convincing evidence that Aktiebolaget entered into the license agreement of April 1, 1965 because of the fraudulent misrepresentations of defendants or by a preponderance of the evidence that the product of defendant was so similar to plaintiffs as to cause confusion among the public. The trial court, therefore, should have entered judgment for the defendants.

Specifications of Error.

1. Defendants cite error in law in the rulings of the trial court allowing certain exhibits into evidence over objections. Since these exhibits relate to particular phases of plaintiff's proof, for the purpose of simplification, defendants have grouped these exhibits into classifications as follows:

a. The financial reports. [Exs. 3, 4 and 48.]

(1) Exhibit 3. [R. T. pp. 14-16.]

(a) No proper foundation.

(b) Hearsay.

(c) Irrelevant, incompetent and immaterial.

(d) The original books and records are the best evidence.

(e) Defendants were never given an opportunity to inspect the original books and records although an order was entered allowing such inspection.

(2) Exhibit 4. [R. T. p. 21.]

(a) No foundation.

(b) Hearsay.

(c) The books and records would be the best evidence.

(3) Exhibit 48. [R. T. pp. 267-268.]

(a) Hearsay.

(b) Lack of proper foundation.

(c) Refusal of plaintiffs to allow an examination of the original books and records.

b. The Lindeteves-Jacoberg letters. [Exs. 8, 9, 10, 11, 13, 14, and 16; R. T. pp. 69; 75-79.]

(1) Lack of foundation.

(2) Self serving declaration.

(3) Hearsay.

c. Tokyo-Aktiebolaget letters. [Exs. 17, 18 and 43.]

(1) Exhibits 17, 18. [R. T. pp. 69-71; 79.]

(a) Lack of proper foundation.

(b) Self serving declarations.

(c) Hearsay.

(2) Exhibit 43. [R.T. pp. 145; 156-157.]

(a) No identification as to the authenticity of the Exhibit.

(b) Hearsay.

(c) No proper foundation.

(d) No identification as to the author of the Exhibit.

d. The photographs [Exs. 12a through 12h and 44a]

(1) Exhibits 12a through 12h [R. T. pp. 67-68].

(a) Hearsay.

(b) Not demonstrative evidence.

(c) Lack of proper foundation.

(2) Exhibit 44a [R. T. pp. 145-147].

(a) No identification as to the authenticity of the exhibit.

(b) No identification as to the exhibit.

(c) The exhibit is dated more than 6 months after the contract of April 1, 1965 was taken and *after* the present action was commenced.

(d) No foundation as to when this exhibit was taken or by whom.

e. Plaintiffs' Inter-Office Memoranda [Exs. 29, 30 and 32; R. T. pp. 134-137].

(1) Hearsay.

(2) Correspondence between plaintiffs.

(3) They relate to a third party.

f. The Dun & Bradstreet Report [Ex. 39; R. T. pp. 134, 138].

(1) Hearsay.

g. Letters from plaintiff Addo Machine Co., dealers to plaintiff Addo Machine Co. [Exs. 53-57, incl.; R. T. pp. 305-310].

(1) No authentication as to the authors of these exhibits.

(2) Hearsay.

(3) Not addressed to the witness (George Agrell) but to someone else.

(4) The contents of these exhibits contain incompetent testimony.

(5) They are letters solicited after the present law suit was contemplated.

(6) Self serving declarations.

h. The letters from Addo-X dealers to Western Addo-X, not a party to this action [Exs. 61-65 incl.; R. T. pp. 310, 342, 345].

(1) No proper foundation laid.

(2) No authentication as to the authors of these exhibits.

(3) Hearsay.

(4) The contents of these letters contain incompetent testimony.

(5) They are letters solicited after the present law suit was contemplated.

(6) Self serving declarations.

2. The Lindeteves-Jacoberg letters [Exs. 8-11 inclusive, and Exs. 13, 14, and 16] and the Aktiebolaget-Tokyo letters [Exs. 17 and 18] were not offered into

evidence as to the truth of their contents [R. T. pp. 38, 72] and they were received into evidence only for the limited purpose to explain why plaintiffs acted as they did [R. T. p. 75], the attitude of plaintiff [R. T. p. 76], and to explain their action [R. T. pp. 76-78]. Furthermore the court stated that it would not decide the case on the basis of facts asserted in any letters. [R. T. pp. 70-76.] It was therefore error on the part of the trial court to make findings of fact and conclusions of law predicated on the truth of the contents of these letters.

3. a. There was no misrepresentation made by defendants to plaintiffs.

b. Plaintiff Aktiebolaget was duty-bound to investigate the defendants before issuing the license agreement to them.

4. The trial court erred in concluding that plaintiff Aktiebolaget was induced to enter into the license agreement of April 1, 1965 because of the fraudulent conduct of the defendants.

5. The trial court erred in allowing the plaintiffs to withdraw their second cause of action for trade mark infringement instead of entering judgment on the merits in favor of defendants on this cause of action.

6. The Court erred in concluding that defendants were guilty of unfair competition with the plaintiffs.

7. The Court erred in concluding that this was a patent case or of such complex nature as to entitle plaintiffs to an award of counsel fees and costs in the sum of $36,905.17.

8. The crucial findings are not supported by the evidence and the findings do not support the judgment. Since these are numerous and detailed they are analyzed separately under Appendix B *infra.*

Summary of Argument.

1. a. Four adding machines are involved in this law suit. [R. T. pp. 144-145.]

(1) 341E—This model is produced by plaintiff embodying its patents.

(2) 4001—This model is a product of Toshiba. [Ex. 7.]

(3) 7001—This model is manufactured by TEC for Purer and sold by him in the U. S. [Ex. 33 and R. T. pp. 363-364.]

(4) 4011—This is the same as 7001.

b. Defendants contend as follows:

(1) Toshiba model 4001 does not embody any of plaintiff's patents and there is no evidence to support plaintiffs' claim that it does.

(2) Toshiba Model 4001 is not a copy of plaintiffs' Model 341E and there is no evidence to support plaintiffs' claim that it is.

(3) Toshiba Model 4001 is not the same as TEC model 7001 or 4011 and there is no evidence to support plaintiffs' claim that they are.

2. There is no competent evidence in the record that any dispute ever existed between plaintiff Aktiebolaget and Toshiba of Tokyo regarding the use by Toshiba of Aktiebolaget's patents, or that plaintiff Aktiebolaget ever attempted to prevail upon Toshiba to cease using their patents. Mere suspicion is not proof.

3. Fraud must be established by clear and convincing evidence. The presumption is to fair dealing and where one of two inferences can be made from a fact, the trial court must adopt the inference of fair dealing to that of fraud. The trial court should therefore have found that the plaintiff Aktiebolaget granted the license agreement of April 1, 1965 to defendant

Phillip Purer as a result of arms' length negotiations and with full knowledge that the adding machine would be manufactured by TEC in Ohito.

4. The explanation of Gunnar Agrell that he did not see the photographs of the plant or the words "NEW MODERN FACILITY IN OHITO" on defendant's stationery, assuming for the moment that it can be believed, still does not absolve plaintiffs of knowledge of its contents, nor can it be ignored in considering whether defendants made any fraudulent misrepresentations to plaintiff Aktiebolaget. Plaintiffs are charged with the knowledge of the photograph and the statement as a matter of law (Cal. Civil Code, sec. 19) and not having made any further inquiries of the defendants, the presumption is that they granted the license agreement with knowledge that defendants' adding machines would be manufactured by TEC in Ohito.

5. Plaintiffs were not entitled to withdraw their second cause of action for trade mark infringement and defendants were entitled to a judgment on the merits on this cause of action.

6. Plaintiffs failed to establish that the marks "Addo" and "Addo-X" had acquired a secondary meaning or that the public was confused into believing that the product of defendant was that of plaintiff. Plaintiffs therefore were not entitled to a judgment for unfair competition.

7. Plaintiffs failed to establish that the phrase "Machines for Millions" had acquired a secondary meaning or was in any way associated with plaintiff's products.

8. The cause was not tried as a patent case but as one whether a license agreement was obtained by fraud. Plaintiffs, therefore, were not entitled to an award of attorney's fees and costs.

ARGUMENT.

POINT I.

Regarding the Exhibits That Were Admitted Into Evidence Over Objection.

Plaintiff's theory is that in 1960 Toshiba of Japan produced a model 4001 adding machine which was an exact copy of plaintiff's model 341E adding machine, including the patented features, and that upon learning of this infringement and copying, Aktiebolaget attempted to have Toshiba refrain from this infringement and copying. If such a situation actually existed, plaintiffs had the means to establish it by proper and competent evidence. The proffered exhibits which are hearsay and were submitted without proper foundation, do not establish that Toshiba model 4001 was a copy of plaintiff's model 341E. (*National Labor Relations Bd. v. Englander Company*, 9th Cir., 1959, 260 F. 2d 67, 72.)

As Mr. Justice Cardozo stated in *Shepard v. United States*, 1933, 290 U.S. 96, 104; 54 S. Ct. 22, 25.)

> "This fact, if fact it was, the government was free to prove, but not by hearsay declarations."

The exhibits in question, to which objections were interposed, should not have been admitted into evidence for any purpose or considered by the trial court in making its findings or rendering its decision. All of them are hearsay. One of the best reasons for the hearsay objection is to prevent the presentation of self serving declarations. Another is that it requires the person asserting the fact to be present in the courtroom and to subject himself to cross-examination for a proper determination of the truth (*Flinkote Company v. Lysfjord*, 9th Cir., 1957, 246 F. 2d 368, 382-383, cert. den. 355 U.S. 835, 78 S. Ct. 54.)

A. The Financial Reports [Exs. 3, 4 and 48].

Exhibit 3 is the annual report for the year 1965 and was offered into evidence to prove that plaintiff Aktiebolaget is a world wide organization. [R. T. p. 15.] It was admitted into evidence only for that limited purpose. [R. T. p. 16.]

Exhibit 4 was offered into evidence to establish the total sales volume in dollars of plaintiff Aktiebolaget and its subsidiaries. [R. T. pp. 16-17.] Although the books and records were kept in Malmo, Gunnar Agrell, the witness, never saw the books, only the records. [R. T. p. 17.] Exhibit 3 was not prepared by the witness, but by the accounting department of plaintiff at his request. [R. T. pp. 17, 19-20.] Over objection it was admitted into evidence. [R. T. pp. 20-21.]

Exhibit 48 represents a computation from the books and records of plaintiff Addo Machine Co. for the sales of that company for the years 1963 to 1967 which the witness George Agrell asked his accounting people to prepare. [R. T. p. 265.]

The second page of this exhibit represents the advertising expenditures for Addo Machine Company for the years 1963 to 1967 which the same witness asked his accounting people to prepare. [R. T. p. 266.]

Over objection, Exhibit 48 was admitted into evidence [R. T. p. 268] although they were not a correct portrayal of Addo's books and records [R. T. pp. 269-270]; and the Court was not impressed either with the exhibit or what it represented. [R. T. p. 289.] Then it developed that someone took off the figures from the books, presented them to the witness George Agrell, who proceeded to change them and after altering them had someone else type up what is now Exhibit 48. [R. T. pp. 289-290.]

No witness was produced to testify what books or records formed the basis for these exhibits or that the conclusions contained on these exhibits agreed with the original records or that the exhibits are really summaries of what the original records show. Their use was not even projected in the pre-trial order listing plaintiff's exhibits [R. T. pp. 543-547] and, of course, no testimony was offered that the sources of information and method and time of preparation was such as to indicate its trustworthiness (Ev. Code Sec. 1271 (d); and the fact that Aktiebolaget is a world wide organization is not proper grounds for admitting these exhibits into evidence. [R. T. pp. 16, 513.]

Counsel for the plaintiff argues that although these exhibits were not admissible under Sec. 1732 of Title 28 (Business Records Act) they were admissible under Sec. 1509 of the California Evidence Code. [R. T. pp. 18, 267.] However, even under Sec. 1509 of the Evidence Code they would not be admissible. (*People v. Doble,* 1928, 203 Cal. 510, 515, 265 Pac. 184; Excerpt of opinion (Appendix C, p. 25).)

On October 10, 1966, an argument ensued as to whether defendants would be permitted to examine plaintiff's books and records to oppose their claim for damages. At that time plaintiff's counsel was informed that defendants would not accept their summaries but would insist upon their own examination. [R. T. 10/10/66; pp. 3-4; C. T. p. 439.] Rather than permit defendants to inspect plaintiff's books and records, plaintiffs waived their claims for losses.

Sec. 1509 of the Evidence Code, although it permits summaries to be used where the records are voluminous, still does not do away with the requirement that a foundation must first be laid that the original books and records are admissible. This requires someone fa-

miliar with the books and records to identify them and the entries, and it also allows defendants to examine the original books and records to determine if the summaries are correct. (*Sam Macri & Sons, Inc. v. U.S.A.*, 9th Cir., 1963, 313 F. 2d 119, 128-129.)

Exhibits 4 and 48 are nothing more than sheets of paper bearing typed figures and as evidence they are valueless.

B. Regarding the Lindeteves-Jacoberg Correspondence.

These letters are intended to indicate that an exchange of correspondence, including enclosures, took place between plaintiff Aktiebolaget and its agent Lindeteves-Jacoberg. The procedure described by the witness Gunnar Agrell was that plaintiff would forward the original of the letter to Lindeteves-Jacoberg in Amsterdam, Holland [R. T. pp. 178-179] who in turn would communicate with their subsidiary in Japan. [R. T. pp. 178-179.] There was no direct communication between plaintiff and Lindeteves-Jacoberg in Japan. [R. T. pp. 179-180.]

Plaintiff Aktiebolaget is a Swedish corporation and the witness Gunnar Agrell a Swedish citizen and resident of Malmo, Sweden, Lindeteves-Jacoberg is a Dutch firm located in Holland. Nevertheless the exhibits are all in *English* including the report from the Swedish Consul to its own countrymen [Ex. 16] and no one knows whether the originals, if ever there were any, were in Swedish, Dutch or Japanese. [R. T. p. 182.]

These letters were, of course, hearsay and their inadmissibility in evidence was recognized by counsel for plaintiff who offered them, not for the proof of their contents but that for some years prior to the negotiations between defendants and plaintiff, plaintiff was confronted with a copying of their adding machine by

Japanese people. [R. T. pp. 38, 72.] When the Court received these letters into evidence it did so not as establishing proof of facts asserted in these letters [R. T. p. 70] but for the reason why plaintiff acted the way they did and the fact that Lindevetes-Jacoberg did make certain suggestions. [R. T. pp. 75-79.]

The rule is well established that letters similar to the above exhibits are *not* admissible in evidence over objections. (*Palmer v. Hoffman,* 1943, 318 U.S. 109; 63 S. Ct. 757.) A leading case and one involving similar facts is *Standard Oil Company of California v. Moore* (9th Cir. 1957), 251 F. 2d 188, 217-218, cert. den. 356 U.S. 975, 78 S. Ct. 1139.) In this cause hundreds of exhibits were offered and received in evidence to prove an alleged unlawful combination. Most of these documents were produced by the appellant, pursuant to a notice to produce. The exhibits consisted largely of the originals or copies of letters, telegrams, memoranda and reports. The trial court received these exhibits under the theory that as Business Records they were an exception to the Hearsay Rule. (28 U.S.C.A. 1732.)

The Appellate Court in reversing held that these documents did *not* come within the meaning of Sec. 1732 of the Judiciary Code and that they should not have been admitted into evidence. Although the Court in reversing stated on page 217 that on a new trial some of the letters may be admissible, *after a foundation has been laid,* for limited and non hearsay purposes, such as to show the orders of a superior, pattern of business conduct, contemporary explanations of ambiguous conduct, notice, or motive. It must be borne in mind that these exhibits were appellants' own records which respondent offered into evidence. In other words, if the defendants in the present cause desired to use these exhibits for the purpose of binding the

plaintiffs, since they were the plaintiff's own documents, the defendants could use them for such a purpose. But the plaintiffs could not use their own documents of which defendants have no knowledge whatsoever, to bind the defendants or to show a course of conduct with others than the defendants.

On at least two occasions counsel for the plaintiff stated that these exhibits were *not* being offered as proof of their contents but only to explain why the witness acted the way he did [R. T. pp. 38, 72]; and the court so understood it. [R. T. p. 38.] When the Court allowed these exhibits into evidence it was done on the limited basis to explain why the plaintiffs acted the way they did [R. T. pp. 75-79] and in answer to defendants' objections the Court stated [R. T. p. 70]:

> "The Court: I have not yet admitted the letters, Mr. Fairfield, and I am not about to admit the letters coming from Lindeteves-Jacoberg as establishment of proof of the facts asserted in those letters, but they will be admitted as a basis for action by these people. You understand?"

And on page 76 the Court further reiterated its position:

> "In deciding this case I am not going to do it on the basis of facts asserted in any letters."

It now being clearly understood by all that the facts contained in these letters were *not* evidence in this cause, the trial court proceeded to ignore its own statements and made findings of fact predicated on the truth of the contents of these letters. These will be fully demonstrated in the analysis of the findings. (Appendix B, *infra.*)

Unquestionably there are exceptions to the hearsay rule and one of them is that letters may be received

in evidence not in proof of the statements contained therein but to show a state of mind to explain why the witness acted the way he did. In such an event authenticity of the documents need not be shown although at least a foundation should be laid that they were actually written and mailed and received at or about the time they were supposed to have been written. (*Phillips v. United States* (1965, 9th Cir.), 356 F. 2d 297, 307, cert. den. 384 U.S. 952, 86 S. Ct. 1573, citing *People v. Marsh,* 58 Cal. 2d 732, 26 Cal. Rptr. 300, 376 P. 2d 300, 305.) (Excerpt of opinion of *People v. Marsh,* Appendix C, p. 26.)

C. Photographs [Exs. 12a-12h Incl. and Ex. 44a].

Exhibits 12a through 12h are supposed to be photographs taken in 1963 of adding machines showing the similarity between Toshiba Model 4001 and plaintiff's Model 341-E. [R. T. pp. 48-51.] The witness, Gunnar Agrell, did not take these photographs, nor was he present when any were taken. His testimony is that they were taken in his laboratory upon his orders [R. T. p. 48] and delivered to him *after* they were taken. [R. T. p. 49.] They were then sent to Lindeteves-Jacoberg in Amsterdam, Holland [R. T. pp. 58-61] and that is the last anyone knows about these pictures taken in 1963. There is no evidence that Exhibits 12a through 12h are the same ones that were taken in 1963 and forwarded to Lindeteves-Jacoberg.

The purpose of Exhibits 12a through 12h was to show the similarity between Toshiba Model 4001 and plaintiff's Model 341E. Although the Court stated that it was not relying upon the truth of any of the Lindeteves-Jacoberg letters the Court relied upon the *contents* of one of the letters that the witness asked his agents in Japan to purchase a machine and that in due course a machine arrived. [R. T. p. 57.]

Assuming for the moment that Lindeteves-Jacoberg did forward an adding machine to plaintiff, nobody bothered to establish that the machine in question was purchased from Toshiba or that it even was a Toshiba machine. Definitely it was *not* established as a Model 4001 for Mr. Agrell testified that although there was a sign on the machine when it arrived, he didn't remember what it was [R. T. p. 53] and the only identification marks on these Exhibits were those done by the witness in December of 1965 when his deposition was taken in Stockholm. [R. T. pp. 54-55.] Since this was more than two years *after* the photographs were allegedly taken, and even after the action was commenced, as identification marks they are valueless.

Over extensive objections [R. T. pp. 143-148] the Court admitted into evidence Exhibit 44a on the specific representation of plaintiff's counsel that he would show that the machine in this photograph is Model 4001 and that it is the same as Model 4011. [R. T. pp. 143-147; 157.]

Exhibit 44a is an enclosure in a letter ostensibly written on November 25, 1965, again *after* the present law suit was commenced. [Ex. 43; R. T. p. 140.] No one knows who photographed Exhibit 44a and there is no identification of the model. Nor was the genuineness of Exhibit 43 ever established [R. T. pp. 147, 156-157] and the fact that defendants may be sales agents for Tokyo Electric Co. does not *ipso facto* establish the authenticity or genuineness of either Exhibit 43 or its enclosure Exhibit 44a. (Evidence Code, Secs. 1400-1401.)

Section 1400e of the California Evidence Code defines evidence as

> " 'Evidence' means testimony, writings, material objects, or other things presented to the senses that are offered to prove the existence or non existence of a fact."

Consequently, the objects in the photographs, rather than the photographs, are what should have been presented to the court to determine whether there was any similarity between the tangible objects. Of course, where the original evidence is no longer available, or if for some reason it cannot be taken into Court, such as street intersections or locomotives, then the substitute evidence may be used, and it is then that photographs may be employed in lieu of the original objects. But in such an event a proper foundation must first be laid that the secondary evidence is a duplicate or at least a reasonable facsimile of the original. This rule is stated in 32 C.J.S. 989-990, Sec. 709, as follows:

> "Photographs are admissible as secondary evidence of objects which cannot for one reason or another be produced in court, and they are also admissible as demonstrative evidence. Photographs are generally inadmissible as original or substitute evidence, but they must be sponsored by a witness whose testimony they serve to explain and illustrate, although they may be admitted not only as representing things to which a witness testified from his independent observation, but also as direct evidence of things which have not been described by a witness because they had not, or, as in the case of x-ray pictures, could not have come within his observation."

In the present form not only were the original tangible objects not produced, but no explanation was even attempted why they were not available for use at the time of the trial. And although photographs may be admitted to aid a witness in explaining his testimony (*People v. Bowley,* 1963, 59 Cal. 2d 855, 860; 31 Cal. Rptr. 471, 382 P. 2d 591) there was no testimony given by the witness that could be clarified by the use

of the photographs. Moreover, the alleged foundation to establish the secondary evidence, mainly the use of the photographs in lieu of the originals, was inadequate. A witness of course may testify at the time a photograph was made and that it accurately depicts what it purports to show to lay the proper foundation for its admission into evidence. (*People v. Bowley, supra,* on p. 859.) But in the present cause no adequate foundation was ever laid as to the genuineness of these photographs and they should never have been admitted into evidence.

D. The Tokyo-Denki Letters [Exs. 17, 18 and 43].

Exhibits 17 and 18 were letters ostensibly sent by plaintiff to Tokyo Denki and were objected to on the grounds of no foundation laid, self serving declarations and hearsay. [R. T. p. 69.] They were received into evidence because it expressed a fact which was in issue, namely that plaintiff Aktiebolaget took a dim view of what the Japanese people were doing in that respect. [R. T. p. 79.]

These exhibits were not composed by the witness, Gunnar Agrell, but by one T. Odervall [Exs. 17 and 18; R. T. pp. 65-66] and although the witness testified that he saw them before they were sent, no proof of mailing was offered or other evidence submitted that it was ever received by the addressee.

Cal. Evidence Code Sec. 641 reads:

> "A letter correctly addressed and properly mailed is presumed to have been received in the ordinary course of mail."

It is elementary that this requires some testimony that the alleged letters were enclosed in an envelope, properly addressed and with sufficient postage deposited in a place under the control of a postal department

for the delivery of mail although it is questionably whether this presumption applies when a letter is mailed in a foreign country. (*Oliver v. Newburyport,* 1807, Mass., 3 Mass. 37, 43.) In any event there was no proof these exhibits, were ever mailed to Tokyo-Denki and of course no proof that Tokyo-Denki ever received them. [R. T. p. 71.]

As to Exhibit 43 no attempt was made to authenticate this exhibit or demonstrate its genuineness. (Evidence Code, Secs. 1400-1401.) It is of course basic that it is error to admit into evidence a letter without proving that it was written by the person to be charged by the contents. (*Sinclair v. Wood,* 1853, 3 Cal. 98, 100.)

In *People v. LeDoux,* 1909, 155 Cal. 535, 550, 102 Pac. 517, it is stated:

> "Where [a private writing is] not acknowledged, a writing must be proved in one of three ways. By any one who saw the writing executed, or by evidence of the genuineness of the handwriting of the maker, or by a subscribing witness. . . . Such execution must be shown before it is entitled to admission."

In *Richmond D. Co. v. Atchison etc. Ry. Co.,* 1916, 31 Cal. App. 399, 160 Pac. 862, one Cutting, the president of plaintiff company, testified that he received certain letters from a Mr. Ball who was defendant's engineer in charge of work. Although the witness was in almost daily communication with Ball, and the letter in question was in response to a communication had between him and Ball, he did not testify that he knew the signature of Mr. Ball, nor that he saw either of Ball's letters written nor that he was a subscribing witness thereto. The Court held that there was no proper foundation laid as to the authenticity of these letters and it was error to receive them in evidence.

In urging the admission of Exhibit 43, plaintiff's counsel argued that Exhibit 43 is proof that Tokyo Denki received Exhibits 17 and 18. [R. T. pp. 156-157.] This argument could have some merit if the authenticity of Exhibit 43 was established, for without proof that Exhibit 43 is genuine, obviously its contents are unreliable. Moreover, Exhibit 43 is dated after the present law suit was commenced and can hardly be called an answer to an alleged communication of approximately 20 months earlier.

The argument that each exhibit, without a proper foundation for itself, acts as a foundation for the other and thus establishes a basis for their admission into evidence is circular reasoning that is not accepted by the Court. (*People v. Huskins,* 1967, 245 A.C.A. 923, 929-930; 54 Cal. Rptr. 253.)

Tokyo-Denki is not a party to this action and of course any communication between plaintiff and Tokyo-Denki would not be binding on the defendants. Plaintiffs could easily have obviated the difficulty of proving the fact relied upon in these exhibits and the Lindeteves-Jacoberg letters by taking the depositions of all those involved. Plaintiffs are not destitute litigants. [R. T. p. 70.] The comment by the Court that defendants are sales agents for Tokyo Electric Co. Ltd. is not sufficient grounds to admit Exhibit 43 into evidence without a showing at least that defendant is bound by the conduct of Tokyo Electric and that Tokyo Electric is responsible for the conduct of defendants.

E. The Inter Office Memos [Exs. 29, 30, 32].

Exhibits 29, 30 and 32 are an exchange of letters between Gunnar Agrell and his brother George. They were offered into evidence to bring

> ". . . to the attention of the American sales agent of this copying that was going on, and I

don't think the other letters will stand on themselves without the support of this, and they introduce the subject because they flow in a natural sequence from the April 1st letter as an inquiry." [R. T. p. 135.]

Exhibit 29 was admitted as part of the basis for Mr. Agrell having written to Purer. [R. T. p. 135.] Exhibit 30 was admitted but the Court didn't know for what purpose [R. T. p. 136] and Exhibit 32 for the purpose of continuity only. [R. T. p. 137.]

It is respectfully submitted that these Exhibits do not belong in evidence and the objections to their admission should have been sustained. [R. T. p. 134.] *Standard Oil Co. of Calif. v. Moore,* 9th Cir., 1957, 251 F. 2d 188, 212, 215, cert. den. 356 U.S. 975, 78 S. Ct. 1139.

F. The Dun & Bradstreet Report [Ex. 39].

Dun & Bradstreet reports are hearsay and are not admissible in evidence. (*Missouri Pacific Railroad Co. v. Austin,* 5th Cir., 1961, 292 F. 2d 415, 420-421.)

G. Letters From Addo Dealers [Exs. 53 through 57 Incl.].

It is respectfully submitted that under no theory were these letters, not addressed to the witness George Agrell but to Monroe Oppenheimer, admissible in evidence. Although the trial Court stated that they were admissible in evidence as an exception to the Hearsay rule to establish the serious effect of defendant's conduct on plaintiff's distributorships throughout the country [R. T. p. 308] it is respectfully submitted that the statements in these letters are hearsay, not admissible and should not have been considered by the Court at all. (*Continental Oil Co. v. United States,* 9th Cir., 1950, 184 F. 802, 813.)

As evidence, even considered as sworn statements, which they are not, they had no probative value and were inadmissible. (*Skinner Mfg. Co. v. General Foods Sales Co.*, D.C. Neb., 1943, 52 F. Supp. 432, 438, affd. 143 F. 2d 895; cert. den. 323 U.S. 766, 65 S. Ct. 119; *Model-etts Corp. v. March Co.*, D.C.N.Y., 1953, 118 F. Supp. 259, 263.)

Although counsel for the plaintiff objected to characterising these exhibits as solicited for the purpose of litigation [R. T. p. 305] and the Court stated that it has not concluded that the letters were solicited and were deliberately prepared for the purpose of this litigation [R. T. p. 306] the fact is that these exhibits were solicited and were deliberately prepared for the purpose of this litigation for the following reasons:

a. These exhibits were all prepared in answer to an inquiry of Monroe Oppenheimer, "Dealer Sales Manager".

b. They are dated between November 2nd and November 4th, 1965, long after counsel for the plaintiffs was retained by plaintiffs to represent them in this cause and within a few days of the filing of the complaint in this action. Counsel for plaintiff in this cause was retained on October 5, 1965. [C. T. p. 617.]

c. Although the original complaint ostensibly arose out of exhibiting defendant's machine at the NOMDA convention in Chicago in June, there is no correspondence whatsoever for the months of June, July, August, September or October. [Except Ex. 64 which will hereinafter be explained.]

d. A reading of any one of these exhibits indicates that it was not a spontaneous outburst but rather an attempt to set forth facts in answer to a request.

Although expression of attitude is a state of mind which is a well recognized exception to the hearsay rule as stated by the trial court [R. T. p. 308] that state of mind refers to the witness on the stand that is testifying under oath as to an issue in the case and who, of course, may be cross examined. (*Cope v. Davison,* 1947, 30 Cal. 2d 193, 200, 180 P. 2d 873.)

Unverified statements of distributors, even in a motion for a preliminary injunction, are hearsay without any probative value whatsoever. (*Model-etts Corp. v. Merck,* D.C.N.Y., 1953, 118 F. Supp. 259, 263.) At a trial it is valueless for a trial demands the testimony of a witness taken orally in open court. (Fed. Rules Civ. Prod. Rule 43(a).)

H. Letters From Addo Dealers [Exs. 61-65 Incl.].

The objections to these exhibits going into evidence are the same as those to Exhibits 53 to 57. [R. T. p. 345.] In addition the Court should note:

a. That Exhibits 61, 62, 63 and 65 are all dated November 1, 1965 and addressed to Western Addo-X and Western Addo-X is not a party to this action. This hardly can be construed as not an attempt to solicit information for the purpose of trial.

b. Exhibit 64 is addressed to Mr. Gronhagen from H. B. Pinyan, one of the Western Addo-X dealers. Pinyan's testimony was that he wrote it at the suggestion of Mr. Carlson, the Sales Manager of Western Addo-X. [R. T. p. 419.]

POINT II.

Regarding the Extra Judicial Statements of Defendant.

Although defendant Phillip Purer was present throughout the entire trial, plaintiffs refrained from calling him as a witness. (Fed. Rules Civ. Proc., Rule 43(b).) Instead plaintiffs called as a witness George Agrell, President and sole shareholder of plaintiff Addo Machine Co. to testify that defendant Purer orally stated to him that he was working with Toshiba, that he had seen the Model 4001 machine and was interested in importing and marketing the machine in the United States but that Toshiba wouldn't do so since it was in conflict with Aktiebolaget's patents which is why Purer approached Aktiebolaget to obtain the patents and thus clear the way for the import of the Toshiba machine into the United States [R. T. p. 281], and Carl Gronhagen president of Western Addo-X [R. T. p. 319] that Purer had stated to him that the machine was already in manufacture at the time he started negotiations for the license agreement. [R. T. p. 341.]

An analysis of the testimony of these two witnesses, however, does not indicate that Purer practiced any fraud upon plaintiff Aktiebolaget, for what these witnesses contend Purer stated to them does not rise to the dignity of evidence sufficient to sustain a finding. Substantial evidence is more than a scintilla and must do more than create a suspicion of the facts established. (*Morrison-Knudson Co. v. N.L.R.B.*, 9th Cir., 1960, 276 F. 2d 263, cert. den. 366 U.S. 909, 81 S. Ct. 1082.) It is also to be noted that plaintiff declined the Court's suggestion that Toshiba's conduct be established by Mr. Purer. [R. T. p. 162.] Moreover, on discovery proceedings plaintiffs failed to furnish any

facts to support their contention that Purer had any knowledge of what was transpiring between plaintiff Aktiebolaget and Toshiba [Interrogatories XII-XIV, C. T. pp. 289-290; Motion for more complete answers, C. T. p. 279 and order denying motion, C. T. p. 317.]

A. Regarding the Testimony of George Agrell.

Assuming for the moment the incredible tale that Purer communicated with George Agrell for the purpose of advising him of his transgressions, the testimony of the witness is too uncertain to have any probative value.

No one was present at this meeting except the witness and Purer and although at least 30 to 45 minutes were spent at this conference [R. T. p. 280] and he made notes of what transpired five minutes after Purer left [R. T. p. 297] his testimony as to what was said is clearly weighted, confused and unsatisfactory.

On direct examination he stated that Purer said that in his relations with Toshiba he had seen the BC 4001 machine [R. T. p. 281] but on cross-examination admitted that he inserted the number to identify the machine. [R. T. pp. 297-300.]

In his direct examination he stated that "Purer told me that he had been working with the Toshiba people" [R. T. pp. 280-281] but on cross-examination when asked whether Purer used the word Toshiba answered that *he* (Agrell) used "Toshiba" [R. T. p. 298] and then proceeded to further qualify his answer that Purer probably did or didn't [R. T. p. 298] and then flatly stated yes. [R. T. p. 299.]

Since in September of 1965 when this conference took place only TEC machine models 7001, 7002 and 7003 were involved [Exs. 33 and 49] which were

manufactured by Tokyo Electric Company the gratuitous insertion of Toshiba and Model 4001 into the conversation as statements coming from Purer deprives the testimony of this witness of any probative value. Nor should it be overlooked that this witness couldn't recall if one or two conferences took place between him and Purer [R. T. p. 302]; he couldn't recall if Purer visited him in Chicago [R. T. p. 301] and his unusual statement at he doesn't know if Purer called him; but he didn't call Purer. [R. T. p. 296.]

In *Herbert v. Lankershim,* 1937, 9 Cal. 2d 409, 472, 71 P. 2d 220, the Court quoted from *Morton v. Mooney, et al.,* 97 Mont. 1 [33 P. 2d 262] as follows:

> " 'While the jurors are the sole judges of the facts, the question as to whether or not there is substantial evidence in support of the plaintiff's case is always a question of law for the court (citation), and in determining this question "the credulity of courts is not to be deemed commensurate with the facility and vehemence with which a witness swears. 'It is a wild conceit that any court of justice is bound by mere swearing. It is swearing creditably that is to conclude the judgment.' " ' "

The uncertainty of George Agrell's testimony is extremely important since it was presumably offered as an admission by Purer to establish that he was aware of the alleged dispute between Aktiebolaget and Toshiba and that with such knowledge was intending to obtain patent rights from Aktiebolaget. But as an admission it was valueless. In *Evis Manufacturing Co. v. F.T.C.,* 1961, 9th Cir., 287 F. 2d 831, 842, cert. den. 368 U.S. 824, 82 S. Ct. 43, the court in discussing what is an admission quoted from 31 C.J.S.,

Evidence, Sec. 277, page 1029 citing *Pulver v. Union Inv. Co.,* 8th Cir., 279 F. 2d 699, 705 as follows:

> " 'An admission must be certain, consistent, and definite. * * * It must be couched in language reasonably capable, without forced or strained construction, to bear the interpretation sought to be placed on it. Conjectural and suppositious statements are excluded (citing cases.)' "

In *Luria Bros. & Co. v. United States,* 1966, C.C.P.A., 369 F 2d 701, 713, the court commented on the unrebutted testimony of the witness Crawford as follows:

> "However, we cannot ignore the fact that he was plaintiff's former employee and had been over a period of 10 years. While he was not in plaintiff's employment at the time he testified, he quite properly had a certain predeliction for his old employer and wanted 'to help them out' all he could. His sympathy was naturally with his former employer rather than with the Government. We do not mean that the witness was dishonest, but we do think he made his estimates as high as he could to the extent his conscience would permit."

Moreover the alleged admission is untrue from what the witness states Purer said. Plaintiff contends that Toshiba insists that its Model 4001 was the product of independent research and design and not a copy of plaintiff's machine [Finding of Fact 28, C. T. p. 594] and Toshiba never admitted that it was infringing on plaintiff's patents or using its patents. It is only the plaintiffs who make the claim that Toshiba was copying and infringing. Purer never could have received this information from Toshiba and it is obvious that this alleged statement attributed to Purer was created by the witness.

B. Regarding the Testimony of Carl Gronhagen.

Although Mr. Gronhagen had at least three separate conversations with Purer [C. T. p. 492, item 3] the substance of these conversations were denied to defendant prior to trial [C. T. pp. 493-494; R. T. 12/12/66, pp. 3-5] and the trial court refused to allow discovery proceedings to determine what was said at these conversations. [R. T. 12/12/66, pp. 5-7; C. T. p. 555.]

Mr. Gronhagen testified as to only one conversation, Sept. 11, 1965 [R. T. p. 335] and after refreshing his recollection [R. T. p. 337] related his version of what was stated. [R. T. p. 338.] Later upon questioning of his attorney he added that the defendant said that the machine was in production at the time that he started negotiations for the license agreement. [R. T. p. 341.]

Assuming for the moment that Purer did make such a statement, it carries no probative force as to any of the issues in this cause. No attempt was made to detail the entire conversation so as to intelligently understand what they were talking about or to pin down the time when "they were proceeding to manufacture this machine, this Japanese machine." [R. T. p. 338.]

Nor is the machine that they were talking about identified for both the question and answer refer only to "this machine" and "the machine" [R. T. pp. 340-341] and Exhibit 59 for identification which this witness used to refresh his recollection [R. T. p. 33] refers to several machines, none of which are identified by number. Was the conversation about the machines produced by Tokyo Electric Co. and which are recited in Exhibits 49 and 52? If so, they concern Models 7002 and 7003 which are not involved in this

law suit. Or was it about the Toshiba machine which Toshiba had a right to use? [R. T. p. 183.] No one bothered to explain and this statement, presumably out of context is meaningless as evidence.

The point the appellant is making is that considering the interest of Gronhagen in the litigation, his vague testimony of an alleged admission by Purer is so uncertain as to have no probative value at all. At best it is only speculation and suspicion, insufficient to sustain a finding.

POINT III.

Regarding the Fraud of the Defendants.

The plaintiffs contended and the Court found that the plaintiff Aktiebolaget was induced to enter into the contract of April 1, 1967 [Ex. 26] because of the fraudulent representations made by the defendants. These misrepresentations are recited in Findings of Fact 37-46 inclusive. [C. T. pp. 595-599.]

Basically, the law as to fraud is as follows:

1. The presumption is always against fraud and approximates in strength to that of innocence of a crime.

> *Truett v. Onderdonk* (1898), 120 Cal. 581, 588; 53 Pac. 26;
>
> *Hedden v. Waldeck* (1937), 9 Cal. 2d 631, 636; 72 P. 2d 114 (Excerpt of opinion, Appendix C, pp. 26-27);
>
> *Raine v. Spreckels* (1942), 54 Cal. App. 2d 169, 173; 128 P. 2d 709;
>
> *Trousdell v. Equitable Life Assur. Co.* (1942), 55 Cal. App. 2d 74, 76; 130 P. 2d 173 (Excerpt of poinion, Appendix C, p. 28);
>
> *Gold v. Maxwell* (1959), 176 Cal. App. 2d 213. 218; 1 Cal. Rptr. 226.

2. There can be no actual fraud without an intent to deceive.

Cardoza v. Bank of America (1953), 116 Cal. App. 2d 833, 837, 254 P. 2d 949.

3. In fraud, the misrepresentations must be deliberate.

Pullen v. Heyman Bros. (1945), 71 Cal. App. 2d 444, 453, 162 P. 2d 961.

4. Fraud can be established only by clear and convincing evidence.

Jarnatt v. Cooper (1881), 59 Cal. 703, 706;

Ward v. Waterman (1890), 85 Cal. 488, 504, 24 Pac. 868 (excerpt of opinion, Appendix C, p. 27);

Gold v. Maxwell (1959), 176 Cal. App. 2d 213, 218, 1 Cal. Rptr. 226.

5. If there are two inferences to be drawn from the facts, one favoring fair dealing and the other corrupt practice, it is the express duty of the trier of fact to draw the inference of fair dealing.

Ryder v. Bramberger (1916), 172 Cal. 791, 799-800, 158 Pac. 753 (Excerpt of opinion, Appendix C, pp. 28-29).

6. The facts to establish fraud must be of such a character that no other reasonable conclusion except that of evil design may be drawn from the person whose acts are sought to be impuned.

Hershey v. Reclamation District No. 108 (1927), 200 Cal. 550, 567, 254 Pac. 542;

Hedden v. Waldeck (1937), 9 Cal. 2d 631, 636; 72 P. 2d 114.

7. The inference from the facts are to fair dealing rather than corrupt practice. To hold otherwise would

permit a conclusion of fraud to be based on suspicion and conjecture, which are insufficient to overcome the presumptions against fraud.

> *Tinsley v. Bauer* (1954), 125 Cal. App. 2d 714, 723, 271 P. 2d 110;
>
> *Trousdell v. Equitable Life Assur. Co.* (1942), 55 Cal. App. 2d 74, 76, 130 P. 2d 173.

8. As a proposed licensee, plaintiff had a duty to investigate defendants, particularly since certain facts were drawn to its attention by the picture and statements on Exhibits 20 and 22. (*Oppenheimer v. Clunie* (1904), 142 Cal. 313, 318, 75 Pac. 899.)

The federal court in the Ninth Circuit has, of course, followed California law since substantive law governs all non-federal causes of action.

In *Robinson v. Reed-Prentice Corp.* (9th Cir., 1961), 286 F. 2d 418, 419 it is stated:

> "Substantive state law governs in all non-federal causes of action. *Erie R. Co. v. Tompkins,* 1938, 304 U.S. 64, 58 S. Ct. 817. This includes burden of proof. *Cities Service Oil Co. v. Dunlop,* 1939, 308 U.S. 208, 60 S. Ct. 201."

In *Canada Life Assurance Co. v. Houston* (9th Cir., 1957), 241 F. 2d 523, it was stated on page 538:

> "In a case of this kind the insurance company has the burden of proving fraud. As was said in *Truett v. Onderdonk,* 1898, 120 Cal. 587, 588, 53 Pac. 26, 29: 'The presumption is always against fraud,—a presumption approximating in strength to that of innocence of crime, . . .' "

In *Ettlinger v. Connecticut General Life Ins. Co.* (9th Cir., 1949), 175 F. 2d 870, 872, it was stated:

> "In light of all appellant's testimony, keeping in mind the rule that fraud must be established by clear and convincing evidence, . . ."

And in *United States v. Eleven Certain Parcels of Land in Tulare County* (S.D. Calif., 1942), 45 F. Supp. 289, 290, it was stated per *J.* F. T. O'Connor, District Judge:

> "Fraud is never presumed. The burden is upon the party alleging fraud to prove it. *Hedden v. Waldeck,* 9 Cal. 2d 631, 72 Pac. 114; 31 C.J.S. Evidence, Sec. 103, p. 708. It is presumed that individuals deal fairly and honestly and fraud is the exception."

With these basic principles of law in mind, it is obvious that plaintiff Aktiebolaget did not rely upon any alleged misrepresentations of Purer to issue the license agreement of April 1, 1965. Since the negotiations between plaintiff and defendant that led to the issuance of the license agreement were all in writing [Exs. 20-28], the findings of the trial court, therefore, as to the meaning of these exhibits are not binding on this Court for an Appellate Court is in as good a position as a trial judge to interpret documentary evidence. (*Upjohn Company v. Schwartz,* 2d Cir. 1957, 246 F. 2d 254, 261.)

On December 1, 1964, when plaintiff first received Exhibit 20, Gunnar Agrell had never heard of defendants. But he had heard of Tokyo Electric and TEC prior to that time [R. T. pp. 185, 257] despite his

claim that his first knowledge of TEC was in June of 1965.

But regardless, under Cal. Civil Code, Section 19 plaintiff would be charged with knowledge as a matter of law of TEC, the picture on Exhibit 20 and the statement "NEW MODERN FACILITY IN OHITO" on Dec. 1, 1954 at the time plaintiff received Exhibit 20. (*Consolidated R & P Co. v. Scarborough,* 1932, 216 Cal. 698, 703-704, 16 P. 2d 268.) Plaintiff was thus put on actual notice of circumstances sufficient to put a prudent person upon inquiry and since they had never heard of defendants before, a prudent person would make an inquiry and investigate them (*Beresford v. Horn,* 1954, 127 Cal. App. 2d 89, 91, 273 P. 2d 302). We must also bear in mind that Gunnar Agrell is not a gullible person, but a capable, experienced individual, expert in his field, a leader in many enterprises and Chairman of the local board of the Scandinavian Bank. [R. T. pp. 10-13; *Standard Lumber & Mfg. Co. v. Johnstun,* 9th Cir., 1960, 285 F. 2d 301, 304.]

Upon receipt of Exhibit 20 on December 1, 1964, Gunnar Agrell immediately considered a license agreement with Purer despite the fact that plaintiff Aktiebolaget had a contract with plaintiff Addo Machine Co. wherein the latter was the exclusive distributor of the Addo machine in the United States containing the patented items. [R. T. p. 174.] He envisioned a situation where Purer would sell more adding machines in the United States bearing the patented items than his brother George and as an experienced business man

he knew what was required to produce 20,000 machines a year—or even 10,000 machines. His testimony that he wrote over the picture and that in the course of so writing did not see the words TEC, the photograph of the plant, or the words "NEW MODERN FACILITY IN OHITO," is just not believable. In any event Purer cannot be accused of concealing this information just because the witness testified he didn't see it.

In further correspondence Gunnar Agrell was specifically told that the agreement should not only be made out to Purer & Co. but also to the *manufacturer* for Purer & Co. [Ex. 22] thus informing the plaintiff in no uncertain words that the machine would be made by someone else for the defendant. That plaintiff so understood it is evident by the agreement [Ex. 26] which expressly refers to the manufacturer in the opening paragraph and in paragraph 8 details the right of the manufacturer to use the patents. The answer of Gunnar Agrell that he did not associate the picture on Exhibits 20 and 22 with the manufacturer is again no fault of defendant Purer for it was specifically drawn to plaintiff's attention.

Despite the fact that Addo Machine Co. was the exclusive distributor of Aktiebolaget products in the United States, Gunnar Agrell never informed his brother George of the negotiations with Purer or the license agreement that was subsequently executed. In June, when George learned of this agreement, communications ensued between Gunnar and George which resulted in a decision to cancel the agreement of April 1, 1965 [R. T. pp. 222-230] and on June 30, 1965 George

wrote to defendant that his license agreement was invalid because procured by fraud [Ex. B.] But Gunnar was still seeking grounds for cancellation, for on July 1, 1965, he wrote Purer and inquired:

> "Is your company fully or partially owned by Toshiba, any subsidiary company to Toshiba or any other Japanese company?" [Ex. 37.]

to which Purer on July 12, 1965 answered "No". [Ex. 38] whereupon on July 22, 1965 plaintiff proceeded to cancel the agreement because defendant conceded

> "the existence of an intimate link with Japanese interests engaged in unauthorized copying of our machines which we have been attempting to stop through appropriate channels in Japan." [Ex. 40.]

It is also to be noted that one of the attorneys referred to in Exhibit 40 that Gunnar Agrell consulted was Mrs. Flesch, the author of Exhibit B [R. T. p. 230] and it is also to be noted that Exhibit B was dispatched *before* Gunnar Agrell received the Dun & Bradstreet report [Ex. 39, R. T. pp. 126-127] although the purpose of Exhibit 39 was to show that Gunnar Agrell relied upon this report to cancel the agreement of April 1st. [R. T. pp. 137-138.]

Exhibits 20-25, 28, 34, 35, 37, 38 and 40 do not set forth any fraudulent representations on the part of defendants. Exhibits 20-25 indicate that after negotiations the plaintiff entered into a valid agreement which it later regretted and Exhibits 40 and B indicate a deliberate attempt to rescind a valid agreement.

While it is true that Gunnar Agrell testified that he decided to terminate the contract between the 12th and 22nd of July [R. T. p. 224] the fact still remains that that decision was reached in June. [Ex. B.] Having arrived at that decision, Gunnar Agrell in July

began to seek an excuse to cancel the license agreement.

Where testimony is in conflict with contemporaneous documents, the testimony can be given little weight even to an appellate court, particularly when the crucial issues involve mixed questions of law and fact. In such a situation it will not support a finding. (*United States v. United States Gypsum Co.,* 1947, 333 U.S. 364, 396, 688 S. Ct. 535, 542, rehear. den. 333 U.S. 869, 68 S. Ct. 788.) In the present cause, because of Exhibit B, there is no basis to support any findings that Aktiebolaget was justified in rescinding the license agreement on July 22, 1965. [Findings of Fact 57-58; C. T. p. 600.]

Plaintiffs should not be permitted to disavow the license agreement because Gunnar Agrell testified that he didn't notice the photograph or statement on Exhibits 20 and 22 and didn't associate either with Purer's source of manufacture. In *Dunlap v. Warmack,* 8th Cir. 1967, 370 F. 2d 876, the Court in reversing a judgment under similar circumstances stated on pages 884-885:

> "In summary, we do not believe contractor should be relieved from its written obligations because of the negligence of its president in failing to read the contract before signing it. Written and binding contracts should not be cast aside on the uncorroborated and contradicted testimony of an interested party. We conclude that more proof was required than appears in this record before a court is justified in holding that the contract specifications do not control."

POINT IV.

Regarding the Question of Unfair Competition.

Plaintiffs in their third cause of action charged unfair competition. [C. T. pp. 7-8.] They allege that the name "Addo" in the marketing of adding and other business machines has acquired a secondary meaning in the industry and the public and is identified solely with plaintiffs. [Paragraph XVII; C. T. p. 7.] Then, by incorporating all of the allegations of their second cause of action [Par. XVI; C. T. p. 7] they charge unfair competition. [Par. XVIII, C. T. p. 7.]

At the time of the pre-trial plaintiffs inserted an additional ground of unfair competition; namely whether defendants' importation and sale of adding machines incorporating plaintiffs' patents after July 22, 1965 [the date of Ex. 40] constituted unfair competition. [Issue No. 5; C. T. p. 548.] Defendants objected to the addition of this new charge of unfair competition but their objection was overruled and it was allowed to remain as an issue in the cause. [R. T. 12/12/66, pp. 15-19.]

It is respectfully submitted that as a matter of proof plaintiffs have established nothing to support their charges of unfair competition.

Fundamentally to establish a charge of unfair competition, the proponent must prove two things:

1. That the name (or slogan) has aquired a secondary meaning with the *public,* so that the name or slogan is identified by the public with the goods of the producer.

2. That the *public* (isolated individuals is insufficient) has purchased defendants' goods believing it is that of the plaintiffs. This is commonly referred to as "palming off."

A. As to Secondary Meaning.

In *Kellog Co. v. National Biscuit Co.* (1938), 305 U.S. 111, 118, 59 S. Ct. 109, 113, it is stated:

> "But to establish a trade name in the term 'shredded wheat' the plaintiff must show more than a subordinate meaning which applies to it. It must show that the primary significance of the term in the minds of the consuming public is not the product but the producer."

In *Armstrong Paint & Varnish Works v. Nu-Enamel Corp.* (1938), 308 U.S. 315, 336, 59 S. Ct. 191, 201-202 it was held that secondary meaning of a mark arises when the public associates the goods which are used with the goods of the owner of the mark.

In *Everest & Jennings, Inc. v. E. J. Manufacturing Co.* (9th Cir., 1959), 263 F. 2d 254, it was stated on pp. 259-260:

> "The trade-mark is entitled to protection only if it has acquired a secondary meaning and has come to indicate that the products in connection with which it is used are the products manufactured by the plaintiff corporation."

In *Chun King Sales v. Oriental Foods* (S.D. Calif., 1955) 136 F. Supp 659, 663-664 (aff'd in part and reversed in part on other grounds, 244 F. 2d 909) Chief Judge Yankwich quoted from *Zargerle Peterson Co. v. Venice Furniture Novelty Mfg. Co.*, 7th Cir., 1943, 133 F. 2d 266, 270, adding emphasis, as follows:

> " 'To establish secondary meaning, the article itself must be so clearly identified with its source that its supply from any other source is clearly calculated *to deceive the public and lead it to pur-*

> *chase the goods of one for that of another. Sinko v. Snow-Craggs Corp.* 7 Cir., 105 F. 2d 450. To acquire a secondary meaning in the minds of the buying public, an article of merchandise when shown to a prospective customer must prompt the affirmation, *'That is the article I want because I know its source,'* and not the negative inquiry as to, 'Who makes that article?' In other words, the article must proclaim its identification with its source, and not simply stimulate inquiry about it.' "

In California it is also required that plaintiff plead and prove that its name has acquired a secondary meaning (*Dino, Inc. v. Boreta Enterprises, Inc.*, 1964, 226 Cal. App. 2d 336, 338-339, 38 Cal. Rptr. 167.) In *Jackson v. Universal International Pictures*, 36 Cal. 2d 116, 119, 222 P. 2d 433, the plaintiff produced the testimony of five independent witnesses to establish the secondary meaning to the title of his play.

Referring now to the present cause, not a single witness was produced, nor was any evidence offered to prove that the name "Addo" or the phrase "Machines for Millions" was in any way associated with the product of plaintiffs. The mere fact that plaintiff Aktiebolaget is a world wide organization or that plaintiff Addo Machine Co. has over 800 dealerships, is not proof that in the mind of the public the name or slogan is associated with either of plaintiffs. That is not to say that such a conception on the part of the public does not exist, but it is to say that there is no *proof* in this law suit that it does exist. Nor do Exhibits 3, 4 and 48, assuming for the moment that they have evidentiary value, or the self serving statements of either Gunnar Agrell or George Agrell as to their enormous

empire, establish as proof of a fact that in the public's mind "Addo" or "Machines for Millions" means plaintiffs' products.

Exhibits 53 through 57 inclusive and 61 through 65 inclusive (the letters from dealers of plaintiff Addo Machine Co. and from Western Addo-X) again assuming that they are properly in evidence, also do not establish as a fact in this law suit the mind of the public. At best they relate only the unsworn opinions of those who are clearly associated with plaintiffs, which is not the public mind and which again is not evidence of the public mind. (*Skinner Mfg. Co. v. General Foods Sales Co.,* D.C. Neb., 1943, 52 F. Supp. 432, 448 affd. 143 F. 2d 895, cert. den. 323 U.S. 766, 65 S. Ct. 119; *Model-Etts Corp. v. Merch & Co.,* S.D.N.Y., 118 F. Supp. 259, 263.)

B. As to Confusion.

The second element necessary in an action for unfair competition is "confusion" and again this is the confusion in the mind of the *public* in believing that in purchasing the product of the defendant they are acquiring that of the plaintiff. In essence, an

> ". . . imitator of another's goods must sell them as his own production. He cannot lawfully palm them off on the public as the goods of his competitior. The manufacturer or vendor is entitled to the reputation which his goods have acquired and the public to the means of distinguishing between them and other goods; and protection is accorded against unfair dealing whether there be a technical trade-mark or not. The wrong is in the sale of the goods of one manufacturer or vendor as those of another." (*William R. Warner & Co., v. Eli Lilly & Co.,* 1924, 265 U.S. 526, 531, 532, 44 S. Ct. 615, 618.)

In *Mershon Company v. Pachmayr,* 9 Cir., 1955, 220 F. 2d 879, 881, cert. den. 350 U.S. 885, 76 S. Ct. 139, it is stated:

> "Then, too, the use of any certain method of selling an article may be perfectly fair in itself, but illegal when it is practiced with the intent to deceptively pass off goods of one for goods of another. We mention these fundamental principles merely to point up the inherent relationship between trade-marks and unfair trade. So important to the commercial world are marks which indicate the source of an article in trade that the common law has long afforded protection to them and latterly statutory law has been enacted for that purpose. Title 15, U.S.C.A. Paragraph 1114 (1) et seq."

Confusion, just as secondary meaning, relates to the state of mind of the *public,* not of dealers or those clearly related to plaintiffs. It is determined from the patron's state of mind when confronted by the mark. (*Tisch Hotels, Inc. v. Americana Inn,* 7 Cir., 1965, 350 F. 2d 609, 612.)

In an action for unfair competition, where secondary meaning of the mark has been established, only liklihood of confusion need be proved; but if secondary meaning has not been established, plaintiff must prove actual confusion (*Norwich Pharmacal Co. v. Sterling Drug, Inc.* (2 Cir., 1959), 271 F. 2d 569, 571; cert. den. 362 U.S. 919, 80 S. Ct. 671.) In the present cause no actual confusion was shown [R. T. p. 307] and it is respectfully submitted that assuming for the moment that secondary meaning does exist, plaintiff still is required to establish by competent evidence that likelihood of confusion will result. This they have not done.

In *Paul Sachs Originals Co. v. Sachs,* 9 Cir. 1963, 325 F. 2d 212, 214, 216 a case which involved likelihood of confusion rather than actual confusion, the Court held that where the goods sold are readily distinguishable by a customer, this difference minimizes the likelihood of confusion to the point that the products are not confusingly similar in appearance.

In *Palmer v. Gulf Pub. Co.*, S.D. Cal., Cent. Div., 1948, 79 F. Supp. 731, 738-739 in an action specifically approved by this court in *Sunbeam Lighting Co. v. Sunbeam Corp.*, 9th Cir., 1951, 183 F. 2d 969, 973, cert. den. 340 U.S. 920, 71 S. Ct. 357, Judge Yankwich carefully detailed what is confusion. (Excerpt of Opinion Per *J.* Yankwich, Appendix C, pp. 29-30.)

In California the same rule is set forth in *Sunset House Distributing Corp. v. Coffee Dans, Inc.,* 1966, 240 Cal. App. 2d 748, 756, 50 Cal. Rptr. 49, as follows:

> "But a case of unfair competition rests on a confusion or a likelihood of confusion, on the part of the public as a whole, acting as reasonable persons; it cannot rest on the fact that isolated individuals whose capacity for discrimination is unknown, may have been momentarily confused. (*Cridlehaugh v. Rudolph* (1942), 131 F. 2d 791, 801; *Harad v. Sears, Roebuck & Co.* (1953), 204 F. 2d 14, 19.)"

Turning once more to the present cause, we again have a situation where not a single witness was produced to testify that at any time they purchased an adding machine from defendant believing it to be the product of plaintiff. Here there is not even present the isolated purchaser or the non-discriminating vendee. Moreover, the possibility of likelihood of confusion does not even exist, for Mr. Sven Sundquist, plaintiff's

expert witness [R. T. p. 539] testified that the exterior of plaintiffs' machine [Ex. 6] and defendants' machine [Ex. 67] are not at all the same but to the contrary quite different [R. T. pp. 366-368] and that any similarity that may exist between the two machines would be in the concealed machanism although no one bothered to explain why any ultimate consumer purchasing an adding machine, would ask that the cover be unscrewed and detached for the purpose of examining the interior.

To establish the similarity of the mechanism of plaintiffs' and defendants' machines, Mr. Sundquist testified that 90% of the parts of both machines are identical and approximately 97% of the parts of both machines interchangeable. [R. T. pp. 374-375.] He then proceeded to demonstrate that with 321 parts interchanged between both machines [R. T. pp. 378, 379] by placing the 321 parts of plaintiffs' machine in defendants' machine, defendants' machine would still operate, although not as satisfactorily. [R. T. pp. 393, 394.]

Actually there were not 321 parts interchanged, for Mr. Sundquist removed sections such as the carriage containing approximately 50 parts, and the motor containing approximately another 50 to 60 parts so that the total amount of parts that he lined up was only 157. [R. T. pp. 378-379.] Also included in the exchanged parts were washers, keepers, screws, and extra lock washers. [R. T. p. 405.] He did not exchange the accumulator, a very important part of the adding machine and representing approximately 20% of the heart of the machine [R. T. p. 402] and, moreover, the materials in the accumulator were different. [R. T. p. 403.] He did not exchange the printing mechanism of the two machines [R. T. p. 403] or the pin carriage. [R. T. p. 404.]

Assuming for the moment that 321 parts of plaintiffs' and defendants' machines are interchangeable, no evidence was offered that the 321 parts of plaintiffs' machine is exclusive to plaintiffs' product or associated only with their adding machine. Moreover, plaintiff made no effort whatsoever to establish which of the 321 interchangeable parts constitute the inventions embodied in Exhibits 1 and 2 and what is more important, what functional part of defendants' machine [Ex. 67] infringed upon what particular claim of Exhibits 1 or 2. If this were an action for patent infringement, as plaintiffs claim, such proof is necessary for it is basic that there can be no infringement without a trespass on the claim. (*McClain v. Ortmayer,* 1891, 141 U.S. 419, 425, 12 S. Ct. 76, 78.)

As stated, no evidence was offered that any of the 321 interchangeable parts of plaintiffs' machines is entitled to Federal or any other statutory protection. Under such circumstances it is public domain and can be copied at will. (*Compco Corp. v. Day-Brite Lighting Co.,* 1964, 376 U.S. 234, 237-238; 84 S. Ct. 779, 782; Rehear. den. 377 U.S. 913, 84 S. Ct. 1162.)

C. As to False and Misleading Advertising.

It is the general rule that false and misleading advertising does not constitute unfair competition unless there is also a showing that customers, if they had known the representations were false would have purchased from plaintiff rather than from plaintiff's competitor. *Mosler Safe Co. v. Ely-Norris Safe Company,* 1927, 273 U.S. 132, 47 S. Ct. 314, was an action alleging unfair competition in which appellants contended that the false advertising of appellees caused the public to purchase their product. In affirming the judgment of the trial court for the defendant, Mr. Justice Holmes stated on page 134:

"The defendant is charged only with representing that its safes had 'an' explosion chamber which, so far as appears, it had a perfect right to do if the representation was true. If on the other hand the representation was false as it is alleged sometimes to have been, there is nothing to show that customers had they known the facts would have gone to the plaintiff rather than to other competitors in the market, or to lay a foundation for the claim for a loss of sales."

Chamberlain v. Columbia Pictures Corp., 9th Cir. 1951, 186 F. 2d 923, was an action for unfair competition and a violation of a trade mark wherein the plaintiff as successors and trustees under the last will and testament of Samuel L. Clemens, deceased, (Mark Twain) charged that defendants with false advertising so as to give the public the impression that Samuel Leghorn Clemens authored the story produced by the defendant in a motion picture which was of such inferior character as to bring the Mark Twain stories into disrepute. (These allegations seem to follow the pattern of plaintiff's charges against defendants in the present cause.) In affirming a judgment for the defendant, the Court stated on page 925:

"In order to entitle appellants to the relief sought it would be necessary for them to allege that they have the exclusive right to the use of the story in question and they must be injured directly by appellee's acts."

In *Application of Circus Foods,* C.C.P.A. 1958, 252 F. 2d 310, it was held that words used in an advertisement cannot be made the subject of a mark entitling it to be registered as a trade-mark.

Insofar as Exhibits 49 and 52 are concerned, there is nothing false or misleading in their contents. More-

over, this letter does not refer to any of the machines involved in this law suit [R. T. pp. 144-145] but to different models which may or may not contain the patented items. Furthermore, it was circulated among adding machine *dealers*, a more sophisticated group of purchasers than the public. And what is more important, plaintiffs failed to produce a single individual who could testify that they were so misled by Exhibit 52 that they purchased defendant's adding machine thinking it was the product of plaintiffs.

POINT V.

Regarding Plaintiffs' Second Cause of Action for Trademark Infringement.

Plaintiffs' second cause of action was for trademark infringement. In this cause of action it alleged that plaintiff Aktiebolaget is the registered owner of the Trade Mark "Addo" and "Addo-X" [C. T. pp. 4-7] and that the use of said Trade Marks and plaintiffs' Trade Names by defendants constituted an infringement and a violation of the provisions of the Lanham Act. [Paragraph XIV, C. T. p. 7.] The alleged infringement of plaintiff's Trade Mark by defendants was also made the basis of an application for a preliminary injunction by plaintiff and on the basis of some showing the trial court made findings that defendants did infringe on plaintiffs' Trade Mark. [Conclusions of Law, Nos. 5, 6 and 8; C. T. pp. 247-248.] In addition, in opposition to defendant's motion for summary judgment, plaintiffs stated that one of the genuine issues in this cause was the Trade Mark infringement by defendants. [Item 7, C. T. p. 175.] Thus Trade Mark infringement was an issue in this cause.

On November 23, 1966, defendants advised plaintiffs in writing that on December 12, 1966 they would move the Court for judgment on the Second Cause of Action

and for an order directing the Commissioner of Patents to cancel these Trade Marks on the grounds that they were descriptive and non-registerable. [C. T. p. 484.] Plaintiffs did not oppose this motion but instead on the return date orally moved the Court that the Trade Mark cause of action be withdrawn.

Although the Court took into consideration the fact that the request by plaintiffs to withdraw their Second Cause of Action for Trade Mark infringement was made *after* defendants' motion to cancel the Trade Mark [R. T. 12/12/66, p. 7] and that defendant was entitled to a judgment on the Trade Mark cause of action [R. T. 12/12/66, p. 10], nevertheless it granted plaintiffs' motion and allowed their second cause of action to be withdrawn without prejudice. [R. T. 12/12/66, p. 13.]

On May 29, 1967, in the argument for a new trial, defendant again called the attention of the trial court that it was entitled to a judgment on the Trade Mark cause of action. [R. T. pp. 494-495.] The court again, stated that the second cause of action would be dismissed without prejudice [R. T. pp. 503-504] and any attorney's fees that defendant would be entitled to on such dismissal *would be offset by plaintiff's effort in resisting the motion for a new trial.* [R. T. pp. 518-519.]

Defendants, of course, were entitled to a judgment on plaintiffs' second cause of action for Trade Mark infringement, including cancellation of the Trade Marks. Under Federal Rules Civ. Proc., Rule 41(a)(2) an action may not be dismissed on the plaintiff's insistence save upon an order of the Court and upon such terms and conditions as the Court deems proper. Although Rule 41(a)(2) specifically refers to "action" which has been held to mean the entire controversy and not just a claim or cause of action. (*Harvey Aluminum v. Amer-*

ican Cyanamid Co., 2nd Cir., 1953, 203 F. 2d 105, cert. den. 345 U.S. 964, 73 S. Ct. 949), a partial dismissal was permitted under Rule 41(a)(2) in *Young v. Wilky Carrier Corp.,* 2nd Cir., 1945, 150 F. 2d 764, cert. den. 326 U.S. 786, 66 S. Ct. 470.)

A discussion of these divergent views is contained in *Johnston v. Cartwright,* 8th Cir., 1966, 355 F. 2d 32, 39.

The general construction of Rule 41(a)(2) is that plaintiff may ask leave to dismiss the cause without prejudice upon terms including an award of attorney's fees, and if the terms are accepted by the defendant the cause will be then dismissed without prejudice. On the other hand, if plaintiff cares to dismiss the cause of action with prejudice he does not have to submit terms, for it then becomes a judgment on the merits barring plaintiff from ever commencing another cause of action arising from the same subject matter.

> *Smoot v. Fox,* 1965, 6th Cir., 353 F. 2d 830, 833, cert. den. 384 U.S. 909, 86 S. Ct. 1342;
>
> *Nazarro v. Weiner,* 1965, D.C.N.J., 38 F.R.D. 430, 433-434, aff'd 353 F. 2d 537.

In instituting this law suit and by plaintiffs' counsel signing the complaint, plaintiffs' counsel represented to the Court that there were good grounds to support the pleading. (Fed. Rules Civ. Proc. Rule.11.) Plaintiffs could not arbitrarily dismiss the cause of action, and a statement by counsel that the cause of action disappeared when the deposition was taken is an inadequate explanation in view of Rule 11. (*American Automobile Assn. v. Rothman,* D.C., N.Y. 101 F. Supp. 193, 196.)

When plaintiffs commenced their cause of action for Trade Mark Infringement they placed in issue their right to recover on this claim. If they could not or would not do so, regardless of the reason, defendants

are entitled to a judgment, including an order to the commissioner of patents to cancel the registration of these Trade Marks. (Fed. Rules Civ. Proc. Rule 41(b); *Safeway Stores v. Fannon,* 9th Cir., 1962, 308 F. 2d 94, 98-99.)

The law entitling defendants to a judgment on the second cause of action and cancellation of the registered trade-mark is fully set forth in defendants' memorandum of law. [C. T. pp. 496-498.]

POINT VI.

Regarding the Cause of Action as a Patent Infringement Suit.

At the conclusion of the cause the Court found that defendants' fraudulent conduct in obtaining the patent license and intentional patent infringement after such license had been rescinded made this an exceptional case in which an award to Addo of its attorney's fees and expenses should be granted. [Finding of Fact 73, C. T. p. 603] and [Conclusion of Law 9, C. T. p. 604.]

Subsequently and on April 27th, the Court made supplemental findings of fact and conclusions of law to the same effect [C. T. pp. 668-670] and awarded plaintiff an attorney fee in the sum of $33,000.00 plus expenses in the amount of $3,905.17 or a total of $36,905.17.

A. The Cause as a Patent Infringement Suit.

It is respectfully submitted that this was not a patent infringement case at all; that the trial of the cause whereby the Court concluded that the defendants obtained the license agreement by fraud was neither unusual nor difficult, nor did it warrant exceptional skill, although appellant does not dispute that the case was well tried by plaintiff's counsel. The only factor which made this a "patent infringement" case was that it was

so labelled and for no other reason, and that if it were not so designated it couldn't even be tried in the Federal Court. *Lear Siegler, Inc. v. Adkins,* 9th Cir. 1964, 330 F. 2d 595, 599-600.)

Even if it were a patent infringement case, it was not so unusual a cause as to warrant an award of attorney's fees to plaintiff and moreover, the amount awarded to plaintiff for counsel fees under these circumstances is excessive.

At the outset it should be noted that the first cause of action pleads infringement in general terms; that is, it is not alleged how or in what manner defendants infringed upon any of the *claims* of plaintiff's patents or how the infringement was committed (*Reynolds-Southwestern Corp. v. Dresser Industries, Inc.*, 5th Cir., 1967, 372 F. 2d 592, 594) but instead merely allege that:

> "Defendants, Purer & Company and Phillip Purer, have for some time past and still are infringing those letters of patent by making, importing, selling and using adding machines embodying the patented invention and will continue to do so unless enjoined by this Court. Defendants have actual knowledge that they were infringing plaintiff's patents and did so wilfully." [Complaint, Par. III, C. T. pp. 3-4.]

This defect in pleading was unimportant for defendant Purer was contending that he was using plaintiff's patents pursuant to the license agreement. [Answer, Par. 4, C. T. p. 199.] That patent infringement was not an issue in this cause is further evidenced by the fact:

1. The validity of the patents was conceded for the purpose of this action. [Admission No. 4 in Pre Trial Order; C. T. p. 535.]

2. It was conceded that the inventions described in the patents were incorporated in the TEC model 7001 adding machine [Admission No. 9; Pre Trial Order, C. T. p. 536] thus eliminating it as an issue to be tried.

3. Patent infringement is not listed as an issue of fact or a mixed issue of fact and law remaining to be litigated upon the trial. [Pre Trial Order; C. T. pp. 537-543.]

4. Patent infringement was not listed as an item to be adjudicated or as an issue of law to be litigated upon the trial. [Pre Trial Order; C. T. p. 548.]

5. The issue of law that was contested was whether Aktiebolaget's rescission of the license agreement of April 1, 1965 was justified [Issue 3, C. T. p. 548] and if so, whether the defendants' importation and sale *after* such rescission incorporating Aktiebolaget's patented invention constituted patent infringement. [Issue 4, C. T. p. 549.]

Thus it is obvious that the issue to be tried was not one of patent infringement but whether the license agreement of April 1, 1965 was obtained by fraud, and the action that was tried was one of fraud, plus unfair competition, but not one of patent infringement.

One of the essential elements in a patent infringement cause is that plaintiff must have a valid patent (*Wham-O-Mfg. Co. v. Paradise Mfg. Co.*, 9th Cir., 1964, 327 F. 2d 748, 751) and in every case of patent infringement there should first be a full scale inquiry into the validity of the patents involved. (*Sinclair & Carroll Co. v. Interchemical Corp.*, 1945, 325 U.S. 327, 330, 65 S. Ct. 1143, 1145.)

The ultimate question of patent validity is one of law (*Graham v. John Deere Company of Kansas City*),

1966, 383 U.S. 1, 17, 86 S. Ct. 684, 694; *Bentley v. Sunset House Distributing Corp.*, 9th Cir., 1966, 359 F. 2d 140, 143) and findings must be made that the patent is valid. No such findings were made in this cause.

Since the validity of a patent is one of law, even a stipulation that the patent is valid would not relieve the trial court of its responsibility in making a finding that it was valid, for stipulations as to the law are not binding on the court (*Case v. Los Angeles Lumber Products Co.*, 1939, 308 U.S. 106, 114, 60 S. Ct. 1, 6; *Los Angeles Shipbuilding & Drydock Corp. v. United States*, 9th Cir. 1961, 289 F. 2d 222, 231); nor can you stipulate as to the legal conclusions from an agreed statement of facts. (*Stanford's Estate v. C.I.R.*, 1939, 308 U.S. 39, 51, 60 S. Ct. 51, 59; rehear. den. 308 U.S. 639, 60 S. Ct. 258.)

In *Eureka Williams Corp. v. McCorquodale*, CCPA 1953, 205 F. 2d 155, cert. den. 346 U.S. 872, 74 S. Ct. 121, the Court stated on page 158:

> "In finding the marks 'Hotomatic' and 'Oil-O-Matic' not confusingly similar, we have not ignored the stipulation in the record to the effect that the goods involved possess the same descriptive properties. Such a stipulation, however, cannot foreclose the right of the reviewing court to point out and observe perfectly obvious differences, which actually exist, and which we feel were not intended to be overlooked because of a strict limitation that might be drawn from the language of such a stipulation."

Moreover, the present admission is only that defendant will not contest the validity of the patents in this cause [Admission 4, Pre Trial Order, C. T. p. 535], which is not the same as conceding that plaintiff's patents are valid.

If plaintiffs persist that their first cause of action was actually tried as one for patent infringement, then the trial court was required to make findings not only that plaintiff's patents were valid, but also that their claims under the patents were valid and by appropriate findings how defendant's devices infringed upon the particular claims. Failure to do so is error. (*Neff Instrument Corp. v. Cohn Electronics, Inc.*, 9th Cir., 1961, 298 F. 2d 82, 88-89.) Since no such issues were before the court for determination, and since no such findings were made, it is obvious that "patent infringement" was not tried.

In *Stearns v. Tinker & Rasor*, 9th Cir., 1957, rehear. den. 252 F. 2d 589, it is stated on page 596:

> "It is axiomatic that only a claim of a patent can be infringed. The claims of the patent measure the scope of a patent monopoly. The claims may be explained and illustrated by the description."

To the same effect is *Lockwood v. Langendorf United Bakeries*, 9th Cir., 1963, 324 F. 2d 82, 88 (exception from opinion in Appendix C, p. 30).

Even with plaintiff's witness Sundquist dismantling defendant's machine [Ex. 67] and comparing it with plaintiff's machine [Ex. 6] no testimony was offered which portion of defendant's machine infringed upon any claim of plaintiff's patents, and of course the court made no finding to that effect. Testimony as to infringement is essential.

In *McRoskey v. Braun Mattress Co.*, 9th Cir., 1939, 107 F. 2d 143, 147, it is stated:

> "Infringement is not proved merely by reading a claim upon an accused device. For infringement is not a mere matter of words."

A case peculiarly similar to the present cause is *Reynolds-Southwestern Corp. v. Dresser Industries, Inc.*, 5th Cir., 1967, 372 F. 2d 592, 595 where the Court held that even though the validity of the patent was conceded at the time of trial the question of infringement was still a factual issue to be determined by the trier of facts; but where the evidence is not sufficient to establish validity *and* infringement, it is the duty of the trial court to direct a verdict for defendant.

B. Regarding the Award of Attorney Fees.

In considering an award of attorney's fees to the plaintiff, the Court in its Special Finding 2 relied upon *Talon, Inc. v. Union Slide Fastener, Inc.*, 266 F. 2d 731 (9th Cir., 1959), [C. T. p. 669], which is not at all applicable to the present situation. That cause involved a situation where a defense was set up to plaintiff's claim and plaintiff failed to establish its claim. The Court there held that under these peculiar circumstances defendant's attorney was entitled to an award of attorney's fees the court stating on page 740:

> "It may well be that in a proper case a District Judge would be warranted in including in its basis for awarding attorney's fees to a prevailing defendant the services rendered by defendant's attorney in connection with a separate defense of anti trust violations even though the District Judge should fail to sustain such defense."

Attorney's fees for patent infringement cases should be awarded only in extraordinary cases founded upon an express finding of unfairness or bad faith. (*Rohr Aircraft Corp. v. Rubber Teck, Inc.*, 9th Cir., 1959, 266 F. 2d 613, 624.)

In *Finks Mfg. Co. v. Ramsburg Electro-Coating Corp.,* 7th Cir., 1960, 281 F. 2d 252, cert. den. 366 U.S. 211, 86 S. Ct. 109, the court stated on page 260:

> "The District Court's allowance of attorney's fees to defendants is not predicated on any specific finding as to the basis for such an award. Allowance of such fees should find support in a specific finding as to the exceptional circumstances justifying the award. (citations.)"

In *Dubil v. Rayford Camp & Co.,* 9th Cir, 1950, 184 F. 2d 899, the court reversed so much of the judgment of the trial court that awarded the plaintiff an attorney's fee in the sum of $15,000.00 because the trial court based its conclusions as to the reasonableness of the amount upon the time expended by appellee's counsel not only in connection with the patent infringement action but with the trade mark and unfair competition action as well. (Excerpt from Opinion in Appendix C, p. 31.)

In *Park-In Theaters v. Perkins,* 9th Cir. 1951, 190 F. 2d 137, 142, the appellate court modified the judgment of the District Court by striking therefrom the award of reasonable attorney's fees in the sum of $3,-400.00 to the defendant. Excerpt of Opinion Appendix C, p. 31.)

There was nothing in the present cause to indicate that the defendant in bad faith defended this law suit. Plaintiff's claim is that the license agreement of April 1, 1965 was obtained through the fraud of the defendant, which plaintiff promptly rescinded. Defendant had an equal right to insist that the agreement of April 1, 1965 was entered into on the good faith of all parties, and refuse to accept an unwarranted unilateral revocation of the same and test in court whether the plaintiff had the right to rescind this agreement. And even if the court was of the opinion that the agreement

was obtained by fraud, it was an abuse of its discretion to penalize him by awarding the plaintiff a fee predicated on patent infringement.

Merrill v. Builders Ornamental Iron Co., 10th Cir., 1952, Rehear. Den. 1952, 197 F. 2d 16, 25, was a cause involving the construction of claims in a patent infringement suit in which the court reversed that portion of the judgment which awarded an attorney fee to defendant; citing as its authority *Park Drive In Theatre v. Perkins.* (Excerpt of opinion Appendix C, p. 32.)

C. Regarding the Award of Costs.

The court allowed the Plaintiff's expenses in the sum of $3,905.17. [C. T. p. 670.] Although the court has discretion to allow the successful party their necessary expenses in connection with their litigation, the court did not have the power to allow Gunnar Agrell as costs his traveling expenses from Malmo, Sweden, George Agrell his traveling expenses from New York or Alma Flesch her traveling expenses from New York to Malmo, Sweden to attend the deposition of Gunnar Agrell.

Taxable witness fees and mileage for a witness outside the district is limited to the mileage which is travelled within the district based on the most direct route to the court by means of transportation used by the witness (Local Rule 15 (b) 4; *Kemart Corp. v. Printing Arts Research Lab.*, 9th Cir., 1956, rehear. den. 232 F. 2d 887, 902-905.) As to the expenses of Mrs. Flesch in travelling to Sweden to attend the deposition of Gunnar Agrell, they are not taxable as costs. (Local Rule 15 (b) 3.)

Moreover, plaintiff's counsel was awarded as costs, expenses to which they were not entitled. Listed in the expenses were such items as "hand delivery of letters"

in lieu of the U.S. Mails. [C. T. p. 618, 619, 623.] Telephone calls [C. T. pp. 618, 619, 623, 626] stenographic work [C. T. pp. 619, 630] Postage [C. T. pp. 619, 620, 623] etc. Even cab fare to the court was listed. [C. T. p. 618, 619, 625.]

Recapitulation of Argument.

1. Tokyo Electric Co. and Toshiba are not parties to this action and there is no evidence in this cause that any dispute ever existed between plaintiffs and Toshiba or that Toshiba's Model 4001 is an exact copy of plaintiff's model 341E, including the patented items. Hearsay, self-serving declarations, documents, the authenticity of which are unknown, or other incompetent evidence, no matter how numerous and abundant, is still insufficient to establish as a fact in the trial of a cause plaintiff's requirements as to his burden of proof.

2. Not only did plaintiffs fail to establish the alleged dispute but they also failed to show by any competent evidence how or in what manner Toshiba Model 4001 was a copy of plaintiff's 341E or that it embodied plaintiff's inventions. Equally lacking in proof is that Model 4011 or Model 7001 is a replica of Model 4001.

3. Insofar as fraud is concerned, there is no evidence that Purer made any false representations to plaintiff Aktiebolaget or that Aktiebolaget relied on any of Purer's representations. The evidence does show that although Aktiebolaget may never have heard of Purer & Co., it was still willing to grant him a license agreement without any investigation or concern as to who they were.

4. In any event the picture on Purer's stationery and the request that the license agreement include the manufacturer for Purer & Co. was sufficient notice to place upon Aktiebolaget as a prudent person the re-

sponsibility of investigating and ascertaining Purer's source of manufacture. Defendants cannot be charged with false representations because plaintiff's witness Gunnar Agrell refused to see what was before him.

5. Aktiebolaget declined to make any investigation of Purer & Co., a company entirely unknown to it. Thus, they were satisfied from the information furnished to it by way of the photographs on the Purer stationery and his request to include his manufacturer on the license that Purer had the means and ability to produce 20,000 or even 10,000 machines a year at a cost expenditure of between $2,000,000.00 and $1,000,000.00 per year and that this would be done at the plant pictured on his stationary.

6. Since plaintiffs failed to establish any secondary meaning to their name or slogan or that the public was deceived in purchasing defendant's product believing it to be that of the plaintiffs, plaintiffs did not prove their cause of action for unfair competition.

7. Since plaintiffs charged trade work infringement and placed this cause of action in issue, the court should have rendered a judgment on this cause of action rather than permit plaintiffs to withdraw it.

8. Since this wasn't a patent infringement law suit, plaintiff was not entitled to an award of attorney's fees and expenses.

Conclusion.

For all of the foregoing reasons the judgment should be reversed.

Respectfully submitted,

Joseph W. Fairfield,
Ethelyn F. Black,
Alfred W. Omansky,
Attorneys for Appellants.

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

JOSEPH W. FAIRFIELD

APPENDIX A.

Plaintiffs' Exhibits.

	Iden.	Evid.	Rej.
1—Patent No. 2,854,190	8	8	
2—Patent No. 2,985,363	9	9	
3—1965 Annual Report	14	16	
4—Summary of Addo Sales	19	21	
5—Advertising brochure	23	32	
6—Model 341E adding machine	28	35	
7—Model BC4001 brochure	33	39	
8—Lindeteves letter of 12-10-62	34	79	
9—Addo letter of 1-11-63	40	79	
10—Lindeteves letter of 5-15-63	42	79	
11—Lindeteves letter of 6-26-63	44	79	
12-A to 12-H—Adding machine photos	48	68	
13—Lindeteves letter of 10-29-63	59	79	
14—Lindeteves letter of 12-17-63	60	79	
15—Lindeteves letter of 4-15-64	61		78
16—Royal Swedish Embassy report	64	79	
17—Addo letter to Tokyo Denki 4-28-64	65	79	
18—Addo letter to Tokyo Denki 7-14-64	66	79	
19—Addo letter to Lindeteves 10-31-63	81		81
20—Purer letter of 11-27-64	83	89	
21—Addo letter of 12-17-64	88	89	
22—Purer letter of 12-21-64	90	104	
23—Addo letter to Purer 2-13-65	96	104	
24—Addo letter to Purer 3-17-65	96	104	
25—Purer letter of 4-14-65	98	104	
26—License letter agreement 4-1-65	101	104	
27—Addo letter to Purer 5-18-65	102	104	
28—Purer letter to Addo 6-2-65	102	104	
29—Goran Agrell letter to Gunnar Agrell 6-1-65	106	136	
30—Agrell letter to Addo 6-9-65	107	137	
31—Addo letter to Cal. Typewriter 6-14-65	108	135	

Defendants' Exhibits.

APPENDIX B.

Analysis of the Insufficiency of the Evidence to Support the Findings.

Findings of Fact Nos. 4 and 5 [C. T. p. 591] and No. 12 [C. T. p. 592.]

These findings are based on the contents of Exhibits 3, 4 and 48. The admission of these exhibits into evidence was error as a matter of law. (Point I-A.)

Finding of Fact No. 6. [C. T. p. 591.]

Gunnar Agrell testified that plaintiff A. B. Addo was a world wide organization, had an engineering and research department and advertised all over the world [R. T. pp. 21-26] but there was no proof that "adding machines bearing the name Addo have developed a valuable reputation in the United States and throughout the world." The value of a name is determined by its reception by the public (*Kellogg Co. v. National Biscuit Co.* (1938), 305 U.S. 111, 118-119; 59 S. Ct. 109, 113), and in this cause no evidence was proffered as to the public valuation of plaintiff's name. (Point IV-A.)

Finding of Fact No. 9. [C. T. p. 591.]

After the word defendants should be added "for the purpose of this law suit only". [Pre trial order III, Item 4; C. T. p. 535, R. T. p. 7.]

Finding of Fact No. 18. [C. T. p. 593.]

The statement therein "100 shares were issued in March, 1965" is not supported by any evidence. There is evidence that on February 18, 1965, the Corporation Commissioner issued its Permit *authorizing* the issuance of shares [R. T. p. 426] but that is not equivalent

to stating that the 100 shares were issued. There is a vast difference between authority to purchase and actual purchase. It is also to be noted that the Minute Book was offered into evidence [R. T. p. 425] which was produced at the request of counsel for plaintiff [R. T. pp. 79-80] but nothing was shown from the Minute Book, or from any other exhibits, that shares of stock were actually purchased by defendants, or anyone else, or that shares of stock were actually issued by the corporation.

Finding of Fact No. 20. [C. T. p. 593.]

In the pre-trial order, under V, subd. 1 [C. T. p. 537] it was agreed that it would not be contested by evidence to the contrary; but that does not constitute an admission of evidence to support a finding.

Finding of Fact No. 21. [C. T. p. 593.]

The only defendant engaged in this business is the defendant, Phillip Purer, an individual. [Pre trial order, Admission, No. 8, C. T. p. 536.] There was no evidence produced nor offered that the corporate defendant was engaged in any business.

Finding of Fact No. 23. [C. T. p. 593.]

There is no evidence to support this finding. Exhibits 8 through 10, and 13 through 18, which are letters from Addo to Lindeteves-Jacoberg, Amsterdam, to Tokyo to Toshiba and in reverse, with statements and comments, etc., are all hearsay. (Point I B.) Moreover, these letters were specifically *not* offered into evidence for their contents [R. T. pp. 38, 72] and they were received into evidence *only* for limited purposes. [R. T. pp. 75-79.] Yet the only evidence that

could possibly support this finding is the truth of the *contents* of these exhibits which unquestionably is not in evidence.

Thus, we have the Court allowing into evidence Exhibits 8 to 16 for the limited purpose only of explaining why Mr. Agrell acted the way he did and not for the truth of the contents of these letters; we have the photographs [Exs. 12a to 12h] which only show a machine bearing the name "Toshiba" and no evidence as to what model it is; Mr. Agrell's testimony that he requested his agents Lindeteves to purchase a Toshiba machine; that he received a Toshiba machine but no evidence where or when the machine was purchased or from whom or its model number. Nor should we overlook the fact that Toshiba is an authorized sales agent for Addo machines in Japan. [R. T. pp. 182-183.]

Finding of Fact No. 24. [C. T. p. 593.]

There is no evidence to support this finding. The photographs 12a to 12h (without for the moment arguing that they do not belong in evidence) only shows that one is a Toshiba machine and the other a 341-E. But there is nothing on the Toshiba machine to show that the Toshiba machine is Model BC 4001 and Mr. Agrell testified that he didn't know. [R. T. p. 53.] And of course there was no testimony or other evidence that Model 4001 was a copy of Model 341E.

Finding of Fact No. 25. [C. T. pp. 593-594.]

There is no evidence to support this finding.

(a) No Toshiba Model BC 4001 was ever produced.

(b) No witness testified and there is no evidence that a comparison was ever made between a Model BC 4001 and plaintiff's machine.

(c) Mr. Agrell testified that he didn't know the model number of the Toshiba machine in the photographs. [R. T. p. 53.]

(d) Mr. Sundquist testified that he had never repaired a TEC machine and never saw one until the time the present action was commenced. [R. T. pp. 401-402.]

Finding of Fact No. 26. [C. T. p. 594.]

This finding of fact is not supported by any evidence. This finding relies on the truth of the contents of the Lindeteves-Jacoberg correspondence [Exs. 8 to 18] which are *not* in evidence. These exhibits were admitted into evidence for the limited purpose only to show a state of mind that plaintiff *believed* that Toshiba was copying plaintiff's machines. This finding now asserts as a fact that Toshiba actually copies plaintiff's machines, which even the Court knew was not established [R. T. pp. 62-63]; and that plaintiff attempted to stop such copying.

Finding of Fact No. 27. [C. T. p. 594.]

This finding also relies on the truth of the contents of the Lindeteves-Jacoberg letters which were not in evidence as to its contents. Mr. Agrell may have believed that the Japanese were copying his machine, and acting on that belief may have communicated with the Swedish Export Association, the Swedish consul and Lindeteves-Jacoberg, but his belief does not establish as a fact that what he believed was true.

Finding of Fact No. 28. [C. T. p. 594.]

This finding is based entirely on the contents of Exhibits 13 and 16 despite the specific ruling of the

Court that these exhibits were not received in evidence for their contents but only why Addo took further action. [R. T. pp. 77-78.]

Finding of Fact No. 29. [C. T. p. 594.]

There is no evidence to support this finding.

(a) Addo did not purchase a 4001 or photograph a 4001. Mr. Agrell testified he didn't know the model number of the machine that arrived or what was photographed. [R. T. p. 53.]

(b) There is no way of knowing what Toshiba machine is in Exhibits 12a to 12h inclusive, or its parts.

(c) Copies of the photographs were not sent to the agents. The *originals* were sent to them and we still do not know what happened to these originals. [R. T. pp. 58, 60-61.]

(d) There is still no proof of any Toshiba machine. The court merely assumed that because plaintiff requested them to obtain a Toshiba machine, the machine that arrived came from Toshiba. [R. T. p. 511.]

Finding of Fact No. 30. [C. T. p. 594.]

This finding is practically a quotation from Exhibit 16, which is not in evidence. Obviously there is no evidence to support this finding.

Finding of Fact No. 31. [C. T. p. 594.]

There is no evidence to support this finding. Although Exhibits 17 and 18 may tend to support such a finding, without a showing that these letters were properly addressed and mailed (Evidence Code, Sec. 641) it is not established that it was received thus warranting a reply. Moreover, these letters were not written by the witness, but by a Mr. Odervall, and

merely testimony that the witness saw the letters before they were sent [R. T. pp. 65-66] is insufficient to meet the requirements of (Evidence Code Sec. 641) (*Valente v. Sica,* 1934, 1 Cal. App. 2d 478, 481, 36 P. 2d 1086.)

Finding of Fact No. 32. [C. T. pp. 594-595.]

There is no proof as to what inventions, if any, Toshiba model 4001 embodied. Nor is there any evidence of what Aktiebolaget would willingly do. Toshiba was authorized to sell plaintiff's adding machine [R. T. pp. 182-183] and nothing is stated as to where.

Findings of Fact Nos. 34, 35. [C. T. p. 595.]

There is no evidence to support these findings, which again are predicated on the assumption that Toshiba Model 4001 was a copy of plaintiff's machine and that a dispute existed. The alleged extra judicial statements of Purer are not sufficient, as substantial evidence, to support this finding. (Point II.)

Finding of Fact No. 37 [C. T. pp. 595-596], No. 39 [C. T. p. 596] and No. 41. [C. T. p. 597.]

Copies of these letters should be annexed to the findings so that the Court could have before it the complete document, including the pictures of the plant and the statement "NEW MODERN FACILITY IN OHITO". Obviously the photograph and statement are a part of the letters which were submitted to the plaintiffs in the solicitation of the license.

Finding of Fact No. 43. [C. T. pp. 597-598.]

The evidence is insufficient to support this finding or its subdivisions:

(a) There is nothing to support any conclusion that defendant intended to import a Toshiba copy of the

Addo adding machine. The testimony of the witnesses George Agrell and Gronhagen as to the extra judicial statements of Phillip Purer (Point II of this Brief) are not sufficient to support such a broad conclusion.

(b) There is nothing in the record about any prototype or that defendant did not complete one. The prototype referred to was Exhibit JJ annexed to Purer's depositions [Ex. 56 on pre trial order; C. T. p. 546] and produced in court at the request of plaintiff. [R. T. p. 79.] Mr. Sundquist, the plaintiff's expert, was present at these depositions and as technical adviser to plaintiff's counsel examined the defendant's machines including the prototype. [R. T. pp. 400-401.] Thus, without the prototype in evidence or any testimony that defendant did not prepare a prototype there is nothing to support this finding. Even the testimony of George Agrell and Gronhagen as to the alleged extra judicial statements of Purer contain no word that Purer did not complete a protype as stated in Exhibit 20.

(c) Since the prototype was not in evidence, there is no evidence to support the conclusion that there was no similarity to Addo's patents or that it was an exact copy of Addo's 341E machine.

(d) There is no evidence in this cause that the adding machine referred to in Exhibit 20 was an exact copy of Addo's machine. Presumably plaintiffs in their Brief will point to the record where this evidence exists.

(e) Presumably respondents in their Brief will point to the record where there is evidence that Toshiba 4001 is either a copy of Model 341E or contains its patents. Even the inadmissible exhibits (Point I B.) only contain information that Toshiba manufactures Model 4001 and that they are discontinuing its use, but not that they are similar to 341E or contain its patents.

(f) The court expressly refrained from making any finding on this point. [R. T. pp. 463-464.] Not only is there no evidence to support this finding, but plaintiff cannot explain how reliance upon the contents of a letter dated April 14, 1965 can in any way influence it to grant a license two weeks previously (*Bank of St. Helena v. Lilienthal-Brayton Co.* (1928), 89 Cal. App. 2d 258, 263, 264 Pac. 546.)

Findings of Fact Nos. 44, 45 and 46. [C. T. pp. 598-599.]

Plaintiff did not rely on these alleged representations. What plaintiff contends it relied upon is specifically set forth in Exhibit 40, which states that the grounds for rescission is that defendant concealed the nature of his company and his intimate link with Japanese interests. Insofar as the letters were concerned [Exs. 20 and 22] that led to the granting of the license, there was no reliance upon their contents at all. Gunnar Agress stated re Exhibit 22 [R. T. p. 100]: "My impression was that production was smaller than estimated in the beginning." The other source of complaint was that until June 19, 1965 plaintiff had no information to Link Purer & Co. with a Japanese *copy* of plaintiff's machine [R. T. pp. 112-113]; and that if it had been told in April of 1965 that Purer & Co. was the sales agent of Tokyo Electric Co. it would not have granted the license. [R. T. pp. 130-131.]

Finding of Fact No. 47. [C. T. p. 599.]

There is no evidence to support this finding. Moreover, this finding flatly contradicts the testimony of Gunnar Agrell (without agreeing that it is substantial evidence) that plaintiff would not have granted the

license if it knew that Purer & Co. was the sales agent for Tokyo Electric Co. [R. T. pp. 130-131.]

Finding of Fact No. 48. [C. T. p. 599.]

Although Gunnar Agrell did testify that he never heard of "TEC" until June, 1965, the evidence is that he did know of the existence of TEC and Tokyo Electric Company prior to November 27, 1964:

1. The affidavit of Gunnar Agrell submitted in Los Angeles Superior Court action no. 869,999 wherein he stated under oath as follows:

> "Approximately three years prior to 1965, it came to the attention of A. B. Addo that a Japanese corporation by the name of Tokyo Electric Company (and commonly referred to in Japan as 'Toshiba') and its subsidiary, Tokyo Denki K . . ." R. T. pp. 184-185.]

2. The sworn testimony of this witness in his deposition where he stated that he knew of Tokyo Electric Company under the name of Tokyo Denki [R. T. p. 257] prior to the letter of November 27, 1964. [Ex. 20.]

Thus the evidence is that Aktiebolaget knew of the existence of Tokyo Electric Co. prior to November 20, 1964 and also explains why plaintiff made no attempt to investigate the manufacturer for Purer & Co. Thus Gunnar Agrell was bound by his own testimony with respect to this subjective matter concerning which he could not be honestly mistaken. It is not a question of inconsistencies concerning objective matters in which honest errors might be made (*Canadian Pac. Ry. Co. v. Sullivan*, 1st Cir. 1942, 126 F. 2d 433, 440, *cert. den.* 316 U.S. 696, 62 S. Ct. 1291.)

Moreover, if the fact to be proven is dependent solely upon the inconsistent testimony of a party to the litigation, that party has failed to carry the burden of proof imposed upon him. (*The Seeandbee,* 1939, 6th Cir., 102 F. 2d 577, 581.)

3. But regardless, plaintiff would be charged as a matter of law with the knowledge contained on Exhibits 20 and 22 (California Civil Code, sec. 19) at the time of their receipt.

Again it must be repeated that there is no evidence of Toshiba copying any 341-E machine.

Findings of Fact Nos. 49 and 51. [C. T. p. 599.]

What was exhibited at the Chicago Fair was Tokyo Electric model no. 7001 [Exs. 31 and 36] not Model 4011.

Finding of Fact No. 50. [C. T. p. 599.]

There is no evidence that the TEC model 4011 is the same as Toshiba model 4001 or that the case had been redesigned. The only evidence in this cause of a model 4001 is Exhibit 7, which is not similar to Exhibit 33. The Court must also bear in mind that no Model 4001 was ever produced [R. T. p. 42] and that there was no proof that the machine in Exhibits 12a through 12h was Model 4001. As a matter of fact plaintiff failed to establish this point altogether, although he said he would. [R. T. pp. 52-53.] Mr. Agrell could not testify that Lindeteves purchased a Model 4001 [R. T. p. 52] and he didn't recall what number was on the machine that arrived. [R. T. p. 53.] An attempt was made to identify Exhibit 44a as a Model 4011 [R. T. p. 142] but the witness could not identify the writing on the reverse side [R. T. p. 142].

The court stated that the lack of identification was significant and valueless unless linked up and the Court refused to assume that it was a 4011. [R. T. pp. 148-149.] Moreover, the witness testified that "the case on the BC 4001 is different from the case on the Toshiba machine which is called here BC 4011." [R. T. pp. 148-149.]

Finding of Fact No. 56. [C. T. p. 600.]

Although Purer & Co., the California corporation, is named as a defendant in this cause, there is no evidence to connect it as a participant in any of the transactions. All dealings were done by Phillip Purer personally. The agreement of April 1, 1965 [Ex. 26] has annexed to it the corporate resolution of Aktiebolaget, but not Purer & Co. and Paragraph 8 of Exhibit 26 refers to an individual not a corporation. An individual may use the word "company" after his name without filing a certificate under Civil Code Sec. 2466 (*Levelon Builders, Inc. v. Lynn* (1961), 194 Cal. App. 2d 657, 663, 15 Cal. Rptr. 582.)

Finding of Fact No. 58. [C. T. p. 600.]

Whether the notice of rescission was timely is a conclusion of law.

Finding of Fact No. 59. [C. T. p. 600.]

There is no evidence to support this finding. Moreover the court did conclude that there was a responsibility on the part of the plaintiff to make inquiries as to who defendant's manufacturer was [R. T. p. 459] and since Purer answered all his questions [R. T. pp. 206-207] this information would have been easily available. (Defendant's request for Findings Nos. 5 and 6 [C. T. p. 706 misnumbered].)

Finding of Fact No. 60. [C. T. p. 600.]

There should have been added after this finding on the grounds that the defendant Purer believed that the notice of rescission was invalid [Exs. 41 and 42] and that the agreement of April 1, 1965 [Ex. 26] was still in full force and effect.

Finding of Fact No. 62. [C. T. p. 601.]

(a) There is no evidence to support any finding that the defendant Purer has stated that he has a license to "copy". [Exs. 49 and 52.]

(b) The phraseology in this finding that the license "would only have authorized defendant to use the two patented devices, not to build a particular adding machine" is ambiguous. Defendant did use plaintiff's patented devices in its adding machines, but appellant does not understand the negative "not to build a *particular* adding machine" or how defendant could use the patented items without building an adding machine.

(c) Moreover, false and misleading advertising does not give rise to a cause of action unless a plaintiff first establishes that the *public* was misled because of the false advertising (Point IV.)

(d) Exhibits 49 and 52 refer to machines not involved in this law suit.

Findings of Fact No. 63. [C. T. p. 601.]

This finding is ambiguous and argumentative. Exhibits 49 and 52 state that TEC has a five year history of selling adding machines, not that it has been selling a 7001 for five years. As a matter of fact, these exhibits specifically refer to the *New* TEC machines and mention Models 7002 and 7003 not Model 7001.

Finding of Fact No. 66. [C. T. p. 602.]

There is no evidence to show how many machines plaintiffs had manufactured and even plaintiff's Exhibits 4 and 5 give only dollar volume. [R. T. pp. 171-172.]

Finding of Fact No. 67. [C. T. p. 602.]

There is no substantial evidence that

(a) The TEC 7001 is inferior in quality to that of plaintiff's 341-E

(b) That TEC 7001 copies plaintiff's 341-E

Sundquist, an employee of plaintiff, testified that in his opinion the TEC machine was inferior to that of plaintiffs, but considering the fact that he is an employee of plaintiffs and that until the time this lawsuit was started he had never seen a TEC machine and that he has never repaired one [R. T. pp. 401-402] his tesimony has no probative value and establishes nothing. It is elementary that an expert's opinion is only as good as the grounds upon which he bases his opinion.

Regarding the comparison between the two machines, Sundquist's testimony is that the outer appearance of TEC is different from plaintiffs and the differences were substantial. [R. T. pp. 366-367.] Although there were also substantial similarities in the interior between plaintiff's and defendant's machines, to a certain extent all adding machines have the same basic functional mechanism. In any event there was no testimony that the mechanism of plaintiff's machine is theirs exclusively.

Finding of Fact No. 68. [C. T. p. 602.]

There is no evidence to support this finding, particularly that portion thereof which states:

> "was intended to and did create a confusion among such dealers as to the sponsorship or endorsement by Addo of the TEC 7001 adding machine"

for the following reasons:

(a) Exhibits 53 through 57 should have not been admitted into evidence. (Point I, G, H.)

(b) These letters do not indicate any confusion among the dealers. [R. T. p. 307.]

(c) It is confusion among the *public,* not dealers, that has any bearing (*American Automotive Ins. Co. v. American Auto Club,* 9th Cir, 1950, 184 F. 2d 407, 409-410.)

(d) On the argument of the motion for a new trial findings based on Exhibits 53 through 57 and 61 through 65 should have been deleted. [R. T. p. 514.]

Findings of Fact Nos. 69, 70. [C. T. p. 602.]

There is no evidence to support these findings and they are not ultimate findings of fact. The letters contain no such insinuation.

Finding of Fact No. 71. [C. T. p. 602.]

There is no evidence to support this finding. The statement by Sven Sundquist, an employee of plaintiffs, that in his opinion his company's machine is better than its competitors does not carry any inference that defendant's machines would be subject to numerous and repeated mechanical failures, particularly when this witness testified that he never saw defendant's ma-

chine until about the time the law suit was started and that he never repaired one. [R. T. pp. 401-402.]

Finding of Fact No. 72. [C. T. pp. 602-603.]

There is no evidence to support any finding that the name of the plaintiffs has established any good will or is accepted in the community. There is no evidence that defendant attempted to trade on plaintiff's good will; defendant in Exhibit 49 merely stated that it was licensed by plaintiff, which is correct.

Finding of Fact No. 73. [C. T. p. 603.]

This is not a proper finding and the reasons are fully set forth in Point VI of this brief.

Conclusions of Law, Nos. 2 to 8 incl.

The findings of fact do not justify conclusions of law nos. 2 through 8 inclusive.

Conclusion of Law No. 9.

This is not a proper conclusion of law and the reasons are fully set forth in Point VI of this Brief.

APPENDIX C.

Judiciary Code—Title 28.

§ 1291. *Final Decisions of District Courts.*

The courts of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, except where a direct review may be had in the Supreme Court.

§ 1338. *Patents, Copyrights, Trade-Marks, and Unfair Competition.*

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent or trade-mark laws.

§ 1732. *Record Made in Regular Course of Business; Photographic Copies.*

(a) In any court of the United States and in any court established by Act of Congress, any writing or record, whether in the form of an entry in a book or otherwise, made as a memorandum or record of any act, transaction, occurrence, or event, shall be admissible as evidence of such act, transaction, occurrence, or event, if made in regular course of any business, and if it was the regular course of such business to make such memorandum or record at the time of such act,

transaction, occurrence, or event or within a reasonable time thereafter.

All other circumstances of the making of such writing or record, including lack of personal knowledge by the entrant or maker, may be shown to affect its weight, but such circumstances shall not affect its admissibility.

This term "business," as used in this section, includes business, profession, occupation, and calling of every kind.

(b) If any business, institution, member of a profession or calling, or any department or agency of government, in the regular course of business or activity has kept or recorded any memorandum, writing, entry, print, representation or combination thereof, of any act, transaction, occurrence, or event, and in the regular course of business has caused any or all of the same to be recorded, copied, or reproduced by any photographic, photostatic, microfilm, micro-card, miniature photographic, or other process which accurately reproduces or forms a durable medium for so reproducing the original, the original may be destroyed in the regular course of business unless its preservation is required by law. Such reproduction, when satisfactorily identified, is as admissible in evidence as the original itself in any judicial or administrative proceeding whether the original is in existence or not and an enlargement or facsimile of such reproduction is likewise admissible in evidence if the original reproduction is in existence and available for inspection under direction of court. The introduction of a reproduced record, enlargement, or facsimile does not preclude admission of the original. This subsection shall not be construed to exclude from evidence any document or copy thereof which is otherwise admissible under the rules of evidence.

Rules of Civil Procedure—Title 28.

Rule 11. *Signing of Pleadings.*

Every pleading of a party represented by an attorney shall be signed by at least one attorney of record in his individual name, whose address shall be stated. A party who is not represented by an attorney shall sign his pleading and state his address. Except when otherwise specifically provided by rule or statute, pleadings need not be verified or accompanied by affidavit. The rule in equity that the averments of an answer under oath must be overcome by the testimony of two witnesses or of one witness sustained by corroborating circumstances is abolished. The signature of an attorney constitutes a certificate by him that he has read the pleading; that to the best of his knowledge, information, and belief there is good ground to support it; and that it is not interposed for delay. If a pleading is not signed or is signed with intent to defeat the purpose of this rule, it may be stricken as sham and false and the action may proceed as though the pleading had not been served. For a wilful violation of this rule an attorney may be subjected to appropriate disciplinary action. Similar action may be taken if scandalous or indecent matter is inserted.

Rule 41. *Dismissal of Actions.*

(a) Voluntary Dismissal: Effect Thereof.

(1) *By Plaintiff; by Stipulation.* Subject to the provisions of Rule 23(c), of Rule 66, and of any statute of the United States, an action may be dismissed by the plaintiff without order of court (i) by filing a notice of dismissal at any time before service by the adverse party of an answer or of a motion for sum-

mary judgment, whichever first occurs, or (ii) by filing a stipulation of dismissal signed by all parties who have appeared in the action. Unless otherwise stated in the notice of dismissal or stipulation, the dismissal is without prejudice, except that a notice of dismissal operates as an adjudication upon the merits when filed by a plaintiff who has once dismissed in any court of the United States or of any state an action based on or including the same claim. As amended Dec. 27, 1946, effective March 19, 1948.

(2) *By Order of Court.* Except as provided in paragraph (1) of this subdivision of this rule, an action shall not be dismissed at the plaintiff's instance save upon order of the court and upon such terms and conditions as the court deems proper. If a counterclaim has been pleaded by a defendant prior to the service upon him of the plaintiff's motion to dismiss, the action shall not be dismissed against the defendant's objection unless the counterclaim can remain pending for independent adjudication by the court. Unless otherwise specified in the order, a dismissal under this paragraph is without prejudice.

* * * * *

(b) Involuntary Dismissal: Effect Thereof. For failure of the plaintiff to prosecute or to comply with these rules or any order of court, a defendant may move for dismissal of an action or of any claim against him. After the plaintiff, in an action tried by the court without a jury, has completed the presentation of his evidence, the defendant, without waiving his right to offer evidence in the event the motion is not granted, may move for a dismissal on the ground that upon the facts and the law the plaintiff has shown no

right to relief. The court as trier of the facts may then determine them and render judgment against the plaintiff or may decline to render any judgment until the close of all the evidence. If the court renders judgment on the merits against the plaintiff, the court shall make findings as provided in Rule 52(a). Unless the court in its order for dismissal otherwise specifies, a dismissal under this subdivision and any dismissal not provided for in this rule, other than a dismissal for lack of jurisdiction, for improper venue, or for failure to join a party under Rule 19, operates as an adjudication upon the merits.

California Civil Code.

§ 19 *Constructive notice.*

Every person who has actual notice of circumstances sufficient to put a prudent man upon inquiry as to a particular fact, has constructive notice of the fact itself in all cases in which, by prosecuting such inquiry, he might have learned such fact.

§ 2466. *Certificate; contents; filing; subscription and acknowledgment; publication.*

Except as otherwise provided in tne next section every person transacting business in this State under a fictitious name and every partnership transacting business in this State under a fictitious name, or a designation not showing the names of the persons interested as partners in such business, must file with the clerk of the county in which his or its principal place of business is situated, a certificate, subscribed and acknowledged in the manner provided in Section 2468 of the Civil Code, stating the name in full and the place of residence of such person and stating the names in full of all the members of such partnership and their places of residence.

Such subscribed and acknowledged certificate must be published subsequent to the filing thereof with the county clerk pursuant to Government Code Section 6064, in a newspaper published in the county, if there be one, and if there be none in such county, then in a newspaper in an adjoining county. An affidavit showing the publication of such certificate as in this section provided shall be filed with the county clerk within 30 days after the completion of such publication, but in no event shall such publication be made prior to the filing of such certificate with the county clerk.

California Evidence Code.

§ 641. *Letter received in ordinary course of mail.* A letter correctly addressed and properly mailed is presumed to have been received in the ordinary course of mail.

§ 1271. *Business record.* Evidence of a writing made as a record of an act, condition, or event is not made inadmissible by the hearsay rule when offered to prove the act, condition, or event if:

(a) The writing was made in the regular course of a business;

(b) The writing was made at or near the time of the act, condition, or event;

(c) The custodian or other qualified witness testifies to its identity and the mode of its preparation; and

(d) The sources of information and method and time of preparation were such as to indicate its trustworthiness.

§ 1400. *Authentication defined.* Authentication of a writing means (a) the introduction of evidence suf-

ficient to sustain a finding that it is the writing that the proponent of the evidence claims it is or (b) the establishment of such facts by any other means provided by law.

§ 1401. *Authentication required.* (a) Authentication of a writing is required before it may be received in evidence.

(b) Authentication of a writing is required before secondary evidence of its content may be received in evidence.

§ 1509. *Voluminous writings.* Secondary evidence, whether written or oral, of the content of a writing is not made inadmissible by the best evidence rule if the writing consists of numerous accounts or other writings that cannot be examined in court without great loss of time, and the evidence sought from them is only the general result of the whole; but the court in its discretion may require that such accounts or other writings be produced for inspection by the adverse party.

In *People v. Doble* (1928), 203 Cal. 510, 515, 265 Pac. 184:

> "It is manifestly error to admit in evidence, under section 1855, subdivision 5, of the Code of Civil Procedure, [now section 1509 of the Evidence Code] a summary of books where the books themselves are not shown to be admissible in evidence. We, of course, are not intending to hold that the books in each case must be actually received in evidence to warrant the introduction of such summary so long as they are available for use of the opposing party, but their introduction in evidence is the safest rule, and it is not a technical objection to require that a showing be first made that such book entries are entitled to admission if they are actually offered."

People v. Marsh (1952), 58 Cal. 2d 732, 26 Cal. Rptr. 300, 376 P. 2d 300, page 738:

> "Wigmore says, 'Wherever an utterance is offered to evidence the *state of mind* which ensued *in another person* in consequence of the utterance, it is obvious that no assertive or testimonial use is sought to be made of it, and the utterance is therefore admissible so far as the Hearsay rule is concerned.'"

And on page 740 the Court further stated:

> "It is true that defendants did not offer to authenticate these letters, reports and conversations. This was not significant. The due execution of the proffered testimony was not involved. The issue was, did defendants receive this material, and if so what effect, if any, did it have on their minds. As was said in *People v. Adamson,* 118 Cal. App. 2d 714, 720 [258 P. 2d 1020], referring to a letter offered to show motive or intent: 'The authenticity of the letter would seem to have no bearing on its intended use. Whether it be genuine or a forgery, it was merely offered to show that Mr. Pugh was motivated by it in his actions.'"

Hedden v. Waldeck (1937), 9 Cal. 2d 631, 636 [72 Pac. 2d 114]

> "'Fraud is odious and is never presumed; it must be established by proof. The presumption always is in favor of fair dealing, except, perhaps, where confidential relations are involved. This presumption has been held to approximate in strength that of innocence of crime.' (12 Cal. Jur., p. 816, par. 71.) 'Actual fraud is never pre-

sumed but must affirmatively be established. The evidence must amount to proof of fraud, and where the circumstances of the transfer comport equally with the theory of honesty and fair dealing, fraud will not be found. The burden of establishing a debtor's fraudulent intent is therefore upon the one seeking to set aside the transfer. . . .' "

In *Ward v. Waterman,* 85 Cal. 488, 504, 24 Pac. 868:

"In *Jarnatt v. Cooper,* 59 Cal. 706, this court again uses the words 'clear and convincing,' but in that connection shows very clearly what is meant by their use. It says: 'It is doubtless a well-settled rule that the party alleging fraud or mistake is bound to prove his allegation by clear and convincing evidence; that is, that the evidence which tends to prove the alleged fraud or mistake, if standing alone, uncontradicted, would establish a clear *prima facie* case of fraud or mistake. If it does not, this court may reverse the judgment on the ground of insufficiency of the evidence to justify the decision. But where the evidence which tends to prove fraud or mistake, if standing alone, uncontradicted, is sufficiently clear and convincing, we cannot reverse the judgment on the ground that such evidence is contradicted by other evidence, because the right to pass upon the credibility of witness is not vested in this court. The only question which we have to decide in respect to the sufficiency of the evidence is, whether that which tends to prove the alleged fraud or mistake, if standing alone, without contradiction, would make out a *prima facie* case."

In *Trousdell v. Equitable Life Assur. Soc.* (1942), 55 Cal. App. 2d 74, 76, 130 P. 2d 173:

> "The testimony of appellant's witnesses tending to prove the materiality of the representations complained of and that they were made falsely and with the intent to deceive was equally unsatisfactory. We refer to this state of the evidence not in criticism of appellant's presentation but as indicative of the failure to meet the test of the proof of actionable fraud. The rule that such proof cannot rest upon mere suspicion or conjecture is well stated in *Truett v. Onderdonk,* 120 Cal. 581, 588 [53 P. 26], where it is said: 'The presumption is always against fraud, a presumption approximating in strength to that of innocence of crime, and it should not be deemed overcome, even prima facie, upon a showing so intangible and shadowy.' "

In *Ryder v. Bamberger* (1916), 172 Cal. 791, 799-800, 158 Pac. 753:

> "For, if there be two inferences equally reasonable and equally susceptible of being drawn from the proved facts, the one favoring fair dealing and the other favoring corrupt practice, it is the express duty of court or jury to draw the inference favorable to fair dealing (citations.) For fraud must always be proved, so that when the plaintiff's case goes no further than to establish a state of facts from which the inference of fraud may or may not be reasonably drawn, he has failed to establish his charge by a preponderance of the evidence, and it becomes the duty of court or jury, as has been said, to find in favor of innocence

and uprightness. This does not, of course, mean that the fraud must be proved by direct evidence. This is not always nor even often possible, but it does mean that the indirect evidence and the inference to be drawn from the proved facts must be convincing as to satisfy the trial court or trial jury that fraud was designed and accomplished."

In *Palmer v. Gulf Pub. Co.* (S.D. Cal. 1948), 79 F. Supp. 731, 738-739:

"For it is the tendency to mislead and not the actual result which is the test. The plaintiff in a case of this character need not prove actual confusion. However, the plaintiff has offered some incidents which it is claimed show confusive results. Reduced to their essence, they consist of undelivered letters, misdirected telephone calls and telephone calls to persons connected with one rather than the other of the publications. These are of small significance, and entitled to little weight. They are the type which, as Mr. Justice Brewer stated on one occasion, are traceable to the '*careless*' or to 'persons *not particularly attentive*' and which '*will happen in the ordinary course of business, no matter how great the differences.*'" (Emphasis by the Court.)

"As said by the present Chief Justice of the United States, when he was Associate Justice of the United States Court of Appeals for the District of Columbia:

"*A publisher though he has a registered trademark cannot be protected from all of the inadequacies of human thought and memory.* * * *

> *Probable confusion cannot be shown by pointing out that at some place, at some time, some one made a false identification.* The plaintiff did not show one instance of a newsstand purchaser receiving the magazine he did not intend to buy. Under both methods of determination, we conclude, without hesitation, that the defendant's title does not infringe the plaintiff's registered trademark.' " (Emphasis added by the Court.)

In *Lockwood v. Langendorf United Bakeries, Inc.* (9 Cir., 1963), 324 F. 2d 82, 88.

> " 'Even if a claim can be read in terms upon an accused article, infringement does not necessarily follow unless it can be found as an ultimate fact that the article uses the inventor's idea as embodied in the inventor's design and drawings and that there is sameness or equivalence of function and means. (citations.)
>
> " 'The mere fact that the accused article performs the same function and achieves the same result as the patented article does not necessarily establish infringement unless it can be found that this is accomplished in substantially the same way and where, as in this case, the art is fairly crowded and the main elements of the patent are found or indicated in prior art, this issue should be determined narrowly rather than liberally. If in fact, not merely colorably, the accused article departs from the teaching of the patent in the means by which it achieves the result there is no infringement.' (citations.)"

In *Dubil v. Rayford Camp & Co.* (9 Cir., 1950), 184 F. 2d 899, 903:

> "As we have just said, the basis of which attorney's fees are to be awarded must be stated clearly. Otherwise it becomes the duty of the reviewing court to set the award aside."

And in discussing the amount of the award of $15,000.00 the court stated on page 903:

> "Not more than 9 days were expended during the trial. If we assume that an equal amount of time was spent in the taking of depositions, plant examinations and in preparation, we find that the winning attorneys would be compensated under the court's order at a rate in excess of $800.00 a day. The patent involved was a simple one. After a complete examination of the record we think our estimate of the time expended, if anything, is over generous. But assuming it were not, a fee of $15,000.00, based upon the patent infringement action alone, would be so excessive that it could not be sustained".

In *Park-In-Theatres v. Perkins* (9 Cir., 1951), 190 F. 2d 137, 142:

> "Thus, the payment of attorney's fees for the victor is not to be regarded as a penalty for failure to win a patent infringement suit. The exercise of discretion in favor of such an allowance should be bottomed upon a finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees which prevailing litigants normally bear."

In *Merrill v. Builders Ornamental Iron Co.* (10th Cir., 1952), Rehear. den. 1952, 197 F. 2d 16, 25:

"... the court may in the exercise of its sound judicial discretion award reasonable attorneys' fees to the prevailing party in a patent infringement case. But such fees are not to be allowed as a matter of course in the ordinary patent suit. And where conventional procedure is followed by the unsuccessful party litigant, attorney's fees are not to be awarded against him as a penalty for failing to prevail. (citations.) The exercise of discretion in favor of the allowance of attorney's fees should have its source in unfairness or bad faith on the part of the losing party, or in some other equitable consideration such as vexatious or wholly unjustified litigation which makes it grossly unjust for the prevailing party in the particular case to bear the burden of his own counsel fees."

No. 22037

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

Purer & Company, a corporation, and Phillip Purer,

Appellants,

vs.

Aktiebolaget Addo, a corporation, and Addo Machine Company, Inc., a corporation,

Appellees.

APPELLEES' ANSWERING BRIEF.

McCutchen, Black, Verleger & Shea,
G. William Shea,
Franklin H. Wilson,
615 South Flower Street, Suite 1111,
Los Angeles, Calif. 90017,
Attorneys for Appellees.

Parker & Son, Inc., Law Printers, Los Angeles. Phone MA. 6-9171.

TOPICAL INDEX

TABLE OF AUTHORITIES CITED

Encyclopedia

Rules

Statutes

The letter requested a license to use the patents. After further correspondence between Addo and appellants in the course of which appellants referred to "our proposed adding machine" which would be going into "very small" production "starting in May" of 1965, Addo granted appellants the requested license.

The statements in appellants' letters were untrue. In June of 1965 appellants began importing and offering for sale in the United States a Japanese made copy of the Addo adding machine. It was not an adding machine whose "engineering and prototype" had been "just completed" by appellants; at the time the appellants wrote the letter of November 27, 1964, it had been manufactured for several years by Tokyo Denki (in English, Tokyo Electric Company or "TEC"), a subsidiary of the Japanese manufacturing combine, Toshiba. The engineering and prototype of the adding machine had been done by Addo. It had been copied by Toshiba. Appellants had contributed nothing to the engineering and prototype of the original or to its copying by Toshiba. It was not an adding machine whose design bore "some similarity" to Addo's patents; it was an exact mechanical copy of the Addo adding machine, so exact a copy that its parts were interchangeable with the parts, both patented and unpatented, of the Addo machine. It was not a "proposed" adding machine whose limited production would begin in May of 1965; the copy had been in production in Japan for several years. Addo had first learned of the manufacture of

the Japanese copy in 1960 and had made efforts to have its production halted, efforts which Addo thought had been successful at the time appellants requested the license.

Promptly upon discovery of the true state of affairs, Addo, by letter dated July 22, 1965, rescinded the patent license and returned the consideration appellants had given for it. Nevertheless, appellants continued to import and sell the infringing copy of the Addo adding machine. Two of the infringing machines were purchased for Addo from appellants on October 7, 1965. On November 4, 1965, this lawsuit was commenced.

Trial without a jury commenced on February 7, 1967, before the Honorable William P. Gray. Five witnesses were called by Addo and their testimony consumed nearly three days. Appellants called no witnesses. Appellants rested at the completion of Addo's case. Following the trial the court entered findings of fact and conclusions of law in Addo's favor. After a further hearing to determine damages the court entered judgment enjoining appellants from infringing Addo's patents and awarded Addo $36,905.17 in attorneys' fees and costs.

After appellee's motion for a new trial and to amend the findings of fact and conclusions of law had been denied, this appeal was taken.

JURISDICTION.

Appellee Aktiebolaget Addo is a corporation organized and existing under the laws of Sweden with its principal place of business in Malmo, Sweden [Clk. Tr. pp. 2 and 535]. Addo is the owner of United States patents 2,854,190 and 2,985,363 which disclose inventions used in adding machines [Clk. Tr. pp. 3 and 535].

Appellee Addo Machine Company is a corporation organized and existing under the laws of the State of New York with its principal place of business in New York City [Clk. Tr. pp. 3 and 535]. It is the exclusive United States importer of Addo manufactured adding machines [Rep. Tr. p. 26] and has exclusive right to the use of the trade name Addo in the United States [Rep. Tr. p. 166].

Appellant Purer & Company is a corporation organized and existing under the laws of the State of California with its principal place of business in Los Angeles, California [Clk. Tr. pp. 3, 198 and 535]. Appellant Phillip Purer is a citizen of California [Clk. Tr. pp. 3, 198 and 535].

Jurisdiction of the United States District Court was based on diversity of citizenship of the parties, 28 U.S.C.A. §1332, and upon the ground that the cause of action for patent infringement and related unfair competition arises under the laws of the United States, 28 U.S.C.A. §1338.

The Court of Appeals has jurisdiction because this is a timely appeal taken from a final judgment of the District Court, 28 U.S.C.A §1291.

STATEMENT OF THE CASE.

Appellees submit their own statement of the case because the statement of the case set forth in appellant's opening brief virtually ignores the fraudulent conduct of appellants which was the basis of the judgment below.

Discovery and Pretrial.

Addo and Addo Machine Company filed their complaint on November 4, 1965, in the Central District of California charging appellants Phillip Purer and Purer & Company with patent infringement, trademark infringement, and unfair competition. The relief sought was a preliminary injunction, a permanent injunction and damages, including attorneys' fees [Clk. Tr. pp. 2-29].

Appellants answered on November 25, 1965, denying the patents disclosed an invention, denying the patents were legally issued, denying that appellants infringed such patents and affirmatively alleging a license from Addo to appellants permitting appellants "to incorporate the features" of Addo's patents [Clk. Tr. pp. 198-199].

On December 21, 1965, the Honorable Albert Lee Stephens, Jr., entered findings of fact and conclusions of law [Clk. Tr. p. 239] and issued a preliminary injunction [Clk. Tr. p. 249] prohibiting appellants from importing or selling adding machines containing the inventions disclosed in Addo's patents and prohibiting appellants from advertising or representing that they were licensed by Addo to import or sell such adding machines.

Appellants initiated discovery proceedings on November 8, 1965, by noticing the depositions of Gunnar Agrell, president of Addo, and George Agrell, president of Addo Machine Company. The deposition of Gunnar Agrell was taken on December 30, 1966, at the United States Consulate in Stockholm, Sweden. Appellants did not take the deposition of George Agrell.

Addo commenced discovery proceedings by notice of the deposition of Phillip Purer served February 23, 1966. Mr. Purer's refusal to answer certain questions and to produce subpoenaed documents at his deposition resulted in a court order of April 11, 1966, requiring that the questions be answered and the documents be produced. This order and a subsequent order were disobeyed and resulted in the imposition of $500.00 sanctions on appellants pursuant to F.R. Civ. P. 37(b)(2). The order imposing sanctions was affirmed on a prior appeal. (Court of Appeals Order of July 6, 1967, Docket No. 21292.)

During the course of discovery appellants admitted the validity of the patents in question and admitted that the adding machines imported and sold by appellants infringed such patents. These admissions were incorporated in the pretrial order [Clk. Tr. pp. 535-536].

At the pretrial conference the trademark infringement cause of action was withdrawn on the ground that discovery had produced no evidence of trademark infringement by appellants; appellants had only used the name Addo in their advertising of the infringing machine. The court ordered the trademark infringement cause of action, the second cause of action in the complaint, dismissed without prejudice [Rep. Tr. of December 12, 1966, p. 13].

Trial.

Trial commenced on February 7, 1967, before the Honorable William P. Gray. Evidence introduced at trial established the following:

Addo and Addo Machine Company.

Addo is a Swedish corporation founded in 1918 and engaged in the manufacturer of adding machines. Addo began manufacturing a 10 key adding machine in 1935 [Rep. Tr. p. 26]. In the course of improvements in the 10-key adding machine, Addo has made several inventions including two which resulted in United States patent 2,854,190 for which application was filed on February 1, 1955, and United States patent 2,985,363 for which application was filed on March 16, 1956. Patent 2,854,190 describes an invention for retarding the start of a function cycle until the carriage of an adding machine has stopped moving [Ex. 1]. Patent 2,985,363 describes a shock absorbing mechanism to reduce vibrations and machine motion during high speed operation [Ex. 2]. The principal model adding machine manufactured by Addo bore the model number 341E [Rep. Tr. p. 27].

Worldwide sales of products manufactured by Addo and its its foreign wholly-owned subsidaries amounted to more than $122 million in the years 1962 through 1966, inclusive. Research and engineering work carried out by Addo during the years 1962 through 1966 cost over $4 million [Ex. 4].

Addo Machine Company is the exclusive importer into the United States and distributor in the United States of the products manufactured by Addo and has exclusive right to the use of the name Addo in the

United States [Rep. Tr. pp. 26 and 166]. The wholesale value of sales of Addo manufactured products in the United States by Addo Machine Company in the five years commencing February 1, 1962, and ending January 31, 1967, was in excess of $19 million. Addo Machine Company's expenditure for advertising and publicity in the same period was in excess of $430,000 [Ex. 48]. Addo Machine Company has done extensive advertising in trade magazines and national circulation magazines such as *Time* and *Fortune* [Rep. Tr. p. 269].

Addo Machine Company has developed a nationwide network of approximately 800 dealers who sell and service Addo adding machines [Rep. Tr. p. 265]. Adding machine dealers selling the Addo adding machine in the United States maintain substantial stocks of spare parts and of tools specifically designed for the servicing and repair of Addo adding machines. Addo Machine Company has conducted numerous courses designed to instruct mechanics employed by adding machine dealers in the servicing and repair of Addo adding machines [Rep. Tr. p. 264].

Copy of Addo's Adding Machine.

In 1960, Addo learned that one of the subsidiaries, Tokyo Denki, of a Japanese manufacturing combine, Toshiba, was producing an adding machine that was virtually an exact mechanical copy of Addo's adding machine [Rep. Tr. p. 36]. Addo was informed that Toshiba gave it the model number BC4001 [Ex. 7]. Addo objected to this copy and efforts to halt the production of the copy were made through Addo's sales representative in Tokyo, the Dutch firm of Lindeteves-Jacoberg N.V., through the Swedish Embassy in Japan and

through the Swedish Export Association [Rep. Tr. pp. 40-42]. Addo was informed that the Japanese Ministry of Foreign Affairs had stated to the Swedish Embassy in Tokyo on October 8, 1963, that Toshiba maintained its adding machine was the product of independent research and was not a copy of the Addo adding machine [Ex. 13].

Addo had previously requested its Japanese sales representative to purchase one of the Toshiba copies and send it to Addo which had been done [Rep. Tr. pp. 43-44]. The mechanism of the adding machine received by Addo was virtually an exact copy of the Addo model 431E adding machine, including the patented parts. Detailed photographs comparing the two machines were made by Addo in late 1963 [Exs. 12 a-h] and these photographs were sent to Addo's sales representative in Japan [Rep. Tr. p. 58]. Addo was thereafter informed that the Japanese Ministry of Foreign Affairs had reported to the Swedish Embassy in February of 1964 that Toshiba would soon put on sale an adding machine of its own design and that production of the infringing copy of the Addo adding machine, the Toshiba model BC4001, would be discontinued as soon as feasible [Ex. 16].

Appellants' Request for Patent License.

By a letter dated November 27, 1964, appellants wrote Addo requesting that appellants be granted a license to use Addo's United States patents 2,854,190 and 2,985,-363 [Ex. 20]. The letter stated:

> "Our company has just completed the engineering and prototype of an Adding Machine to be marketed in the United States. After a close in-

vestigation of the existing patents in the United States, we find that there exists some similarity in our design and your patent numbers 2,985,363 and 2,854,190.

"As we are not a company to engage in long litegation [sic], this investigation of patents is a part of our procedure. At this time we are not questioning the validity of these patents, but have chosen to contact you and request your approval. We would be willing to enter into a nominal licensing arrangement with your company if it would be feasible to do so.

"Our program will be status quo until we hear from you. Please inform me as soon as possible as to what you decide.

Very truly yours,

PURER & COMPANY
/s/ Phil Purer
Phillip Purer, President"

The letterhead stationary on which the request was made bore at the top the legend PURER & COMPANY, followed by a fanciful crest containing the double letter P and gave the address 11221 West Pico, Los Angeles, Calif. At the bottom of the stationery was a picture of a long, low building beneath which appeared the phrase "New Modern Facility in Ohito." The picture of the building was printed in tones light enough that typing or writing over it would be easily legible. On the face of the building in small print four points or less in size appeared the blurred legend "TEC" or "TEO."

By letter dated December 17, 1964 [Ex. 21], Addo answered appellants' request, stated that it would be willing to grant a license to use the two patents and set forth the terms and conditions on which such license would be granted.

Appellants replied by letter dated December 21, 1964 [Ex. 22], indicating that they would, with a few exceptions, agree to the terms outlined in the letter of December 17. The letter included the following statements:

> "In reply to your letter of December 17th, in reference to a license on our proposed adding machine . . .
>
> We propose to manufacture approximately 10,000 machines per year and will be willing to pay your set fee of .30¢ per unit, as was indicated in your letter. We also note there are several other patents that you have on this machine which we are not sure that we will use. This we expect to be included in the license agreement drawn up by you. In other words, we expect to have full coverage from your company on our product. . . .
>
> "We would also like the agreement made in the name of Purer & Company or 'the manufacturer for Purer & Company'."

(As mentioned before, Addo manufacturers adding machines employing numerous inventions for which Addo is the holder of patents. However, the Addo adding machine in question, the Addo model 341-E adding machine, and the Japanese copy of it incorporate only the two patented devices previously enumerated.)

Due to delays in drafting the text of the license agreement and in having it translated into English, it

was not until March 17, 1965, that Addo sent a license agreement to appellants for signature. Appellants replied on April 14, 1965 [Ex. 25], acknowledging receipt of the license but stating in part:

> "The agreement is acceptable in its present form, with one exception being Paragraph Number 9 in which you state that the minimum royalty amount is to be $3,000.00. This, we would like you to change, as our production will be very small in which we expect to produce approximately 300 machines per month starting in May of this year."

A reduction in the minimum royalty to $1,500.00 a year was requested.

On May 18, 1965 [Ex. 27], Addo replied that it would accept the lower minimum royalty figure and on June 2, 1965 [Ex. 28], appellants wrote Addo enclosing a check in the sum of $1,500.00 and signed copies of the patent license [Ex. 26] approved by "the Officials of our Company and the Manufacturer of our product." The license was signed only by Phillip Purer, not by any manufacturer for appellants.

Appellants' Importation of Japanese Copy.

The adding machine appellants then proceeded to offer for sale in the United States [Exs. 33, 67 and 70] was the copy of the Addo adding machine made by Toshiba, production of which, when last heard of by Addo, was to be discontinued as soon as feasible. It was not a machine the engineering and prototype of which had just been completed as represented in appellants' letter of November 27, 1964. It was not an adding machine which bore only "some similarity" of design to Addo's United States patents 2,985,363 and

2,854,190 as represented in appellants' letter of November 27, 1964. It was not an adding machine which might or might not employ other inventions on which Addo had patents, as represented in appellants' letter of December 21, 1964. It was not an adding machine which was going to begin "very small" production in May 1965, as represented in appellants' letter of April 14, 1965. It was the Toshiba model BC 4001 adding machine manufactured by Toshiba's subsidiary, Tokyo Denki. The case had been remodeled and the model number changed to BC 4011. However, it remained a virtually exact copy of the mechanism of Addo 341-E adding machine.

Addo's Discovery of Appellants' Fraud.

Addo learned of this state of affairs in the following manner:

In late May or early June, Addo Machine Company's western wholesale distributor received inquiries from adding machine dealers as to whether it was true that an inexpensive, Japanese copy of an Addo adding machine was to be sold in the United States pursuant to a license from Addo [Rep. Tr. pp. 321-323, Ex. 29]. The inquiries were relayed to Addo Machine Company which, in turn, relayed them to Addo. Addo answered by a letter to Addo Machine Company dated June 9, 1965 [Ex. 30], stating:

> ". . . we have no license agreement whatever with any Japanese firm. The copy of our product that is made in Japan is not manufactured under any license from us."

Within a day or two of receiving this letter, Addo Machine Company's dealer sales manager reported

that orders were being solicited by California Typewriter Exchange at a business machine trade show in Chicago for an adding machine claimed to be manufactured in Japan under license agreement from Addo [Rep. Tr. pp. 274-275, Ex. 31]. Brochures were distributed at the trade show with a picture of the machine which bore the name "TEC" and identified it as the Model AM 7001 [Ex. 33].

On June 14, 1965, Addo Machine Company wrote California Typewriter Exchange demanding that it refrain from stating that the Japanese machine was manufactured under license agreement with Addo [Ex. 31] and enclosed a copy of the letter from Addo of June 9 [Ex. 30] denying that there was any licensed Japanese copy. Appellants replied on June 21, 1965 [Ex. 36], to Addo Machine Company's letter to California Typewriter Exchange and stated that California Typewriter Exchange was appellants' distributor and was introducing the TEC Model AM 7001 adding machine for sale in the United States in accordance with "a license agreement between A. B. Addo Company and the Purer & Company . . ."

On June 17, 1965, Addo Machine Company received the brochure [Ex. 33] for the TEC AM 7001 adding machine being given out at the trade show. A copy of the brochure was sent immediately to Addo [Ex. 32]. The brochure bore the name of appellant Purer & Company, which gave Addo its first knowledge that appellants were connected with the adding machine displayed at the Chicago trade show which was claimed to be a licensed Japanese copy of an Addo adding machine.

As previously mentioned, Addo had been engaged in attempts to halt the manufacture of the copy of its adding machine made by Toshiba and Toshiba's subsidiary Tokyo Denki. Addo had not heard the name Tokyo Electric Company, or its acronym "TEC" until it received the brochure [Rep. Tr. p. 251]. The brochure included a large color photograph of the TEC 7001 adding machine. Although the case of the machine had been redesigned and was not similar in external appearance to that shown in the brochure for the earlier Toshiba copy [Ex. 7] the adding machine illustrated in the brochure did have a symmetrical keyboard which was a feature of Addo adding machines and the Toshiba copy [Rep. Tr. p. 115]. (A symmetrical keyboard is one with the subtraction key to the left of the centrally located numeral keys and the addition key to the right. It facilitates either left-hand or right-hand operation of the keyboard [Rep. Tr. p. 247].)

The brochure being distributed at the Chicago trade show with its picture of the machine with a symmetrical keyboard and the name Purer & Company on it and appellants' letter of June 2, 1965, enclosing the fully executed license agreement and the initial payment were receivd by Addo within a few days of each other. On June 21, 1965, Addo wrote appellants [Ex. 34] stating in part:

> "The fact is that we have been informed that you are selling an adding machine called TEC. As far as we know, this machine is a copy of our ADDO-X machine manufactured in Japan by a subsidiary company of Toshiba.

"If it is in this machine Toshiba is making use of the patent for which you will get a license according to the agreement, you have acquired this license by giving us completely misleading information."

In the June 21 letter to appellants, Addo also requested clarification of what it regarded as deceptively misleading advertising in the brochure put out by Purer & Company. Addo had widely distributed a brochure [Ex. 5] for its own adding machines on which was prominently displayed the phrase "Machines for millions" and in which it was stated that Addo was building its second million business machines. The brochure for the TEC Model AM 7001 adding machine contained the prominently displayed statement, "Over 1 million satisfied users." Addo's letter to appellants of June 21, 1965, called attention to this claim and pointed out its incorrectness, "as naturally the TEC machine has not been sold in a quantity of over one million."

Purer & Company replied by letter dated June 25, 1965 [Ex. 35], stating that the manufacturer for appellants was TEC, a subsidiary of Toshiba and that this information had never been requested by Addo or withheld by appellants. The letter further stated that appellants had offered no misleading information in the past and would not do so in the future. The letter included the statement:

"In our leaflet we have stated 'over one million satisfied users'. I am sure that the amount has

been slightly exaggerated, but is not detrimental to anyone. You will also note in our leaflet that we have never mentioned your fine name or the fact that we are operating under a license agreement, or have we made any indication to the public in disclosing our arrangements."

On July 1, 1965, Addo again wrote appellants [Ex. 37] demanding to know if appellant Purer & Company was fully or partially owned by Toshiba and stating that the question of Toshiba's copying the adding machine had been taken up with the Japanese Ministry for Foreign Affairs and that Addo had been informed that Toshiba planned to discontinue production of the copy "as soon as feasible."

Appellants replied on July 12, 1965 [Ex. 38], that "Purer & Company is a privately owned corporation." It denied any knowledge of prior negotiations or business relations between Addo and Toshiba.

In early July Addo also received a copy of a Dun & Bradstreet report [Ex. 39] giving a credit rating to Purer & Company. In its evaluation of Purer & Company's operations, the Dun & Bradstreet report stated that Purer & Company was a California corporation organized under the name *Tokyo Electric Company International and that the name had been changed to Purer & Company on December 11, 1964, i.e.,* after the license had been requested. That this name change did take place after appellants first wrote Addo requesting the patent license was admitted in the pretrial order [Clk. Tr. p. 536, par. 6].

Rescission of the Patent License.

Having learned that appellants had not designed their own adding machine bearing only some similarity to Addo's patents but was in fact importing an unauthorized copy of an Addo adding machine incorporating the identical patented parts, and having further learned that Purer & Company's correct corporate name at the time negotiations were begun for the license was Tokyo Electric Company International, Addo wrote appellants on July 22, 1965 [Ex. 40], stating that it rescinded the license agreement and returned the $1,500.00 minimum royalty payment. Addo also stated that any further attempt to import and sell the TEC adding machine in the United States would result in a suit for patent infringement.

Despite Addo's rescission of the patent license, appellants went ahead with plans to sell the TEC 7001 adding machine. And, not satisfied only with the patent infringement that these plans entailed, appellants on September 30, 1965 [Exs. 49 and 52], sent notice to adding machine dealers throughout the United States that the TEC adding machine was manufactured under a license from Addo. Addo had not licensed or authorized or approved an adding machine. It had only licensed appellants to use two patents, a license which had been rescinded more than two months before the September 30, 1965, notice to adding machine dealers. The notice stated:

> "Be a 'Winner' and join the group of Dealers that are selling the finest Adding Machine offered today.
>
> "With a history of FIVE Years of top sales experience, the New 'TEC' Adding Machine is

being introduced to the United States market at the low Retail Price of $189.50—with a full 40% profit to you.

"All 'TEC' Machines sold on a Money-Back, Unconditional Guarantee, with a THREE Year 'Free' Parts Warranty.

"This New 'TEC' Machine is manufactured under License Agreement, dated April, 1965, between the A. B. Addo Company of Malmo, Sweden, and Purer & Company, which agreement authorizes us to manufacture and sell these machines under Letters of Patent U.S. 2854190—2985363.

"Please call or write for full particulars and demonstration. Models AM 7002 and 7003—December delivery."

Addo Machine Company received immediate inquiries from its dealers throughout the country demanding to know if Addo was authorizing the production of a copy of its adding machine [Rep. Tr. p. 283].

On or about October 8, 1965, an Addo dealer purchased two of the TEC 7001 adding machines from appellants [Ex. 66, Rep. Tr. pp. 410-412]. An examination of the TEC machine confirmed that it was the Japanese made copy of the Addo 341-E adding machine.

During the course of trial the Addo Model 341-E [Ex. 6] adding machine and the infringing adding machine [Exs. 67 and 70], which was advertised by appellants as the TEC 7001 adding machine [Ex. 33] were admitted in evidence. The TEC 7001 adding ma-

chine imported and sold by appellants had a metal plate attached to the back of it identifying it as the Toshiba BC 4011 adding machine.*

The service manager for Addo Machine Company's western wholesale distributor, called as a witness by Addo, disassembled the infringing machine and the Addo adding machine and transferred more than 300 parts from one machine to the other [Rep. Tr. pp. 375-394]. This transfer graphically demonstrated the virtually complete interchangability of the parts of the two adding machines. During the course of the demonstration, the service manager also demonstrated that the parts in the Addo adding machine were considerably more durable than those in the infringing machine [Rep. Tr. pp. 380-382]. Despite the fact that the infringing machine is a virtually exact mechanical copy, its inferior materials cause its operation to be set at the rate of 149 cycles a minute, rather than the 176 cycles a minute of the Addo adding machine [Rep. Tr. pp. 368-370].

---

*Appellants' summary of argument (Op. Br. p. 29) confuses greatly, by purpose or inadvertence, the relationship of the various adding machine model numbers. When Addo first learned that a Japanese copy of the Addo adding machine was being manufactured, it was informed that the copy bore the Toshiba model number BC 4001 [Exs. 7 and 8]. The adding machine imported by appellants bore the Toshiba model number BC 4011 and was advertised by appellants as the TEC AM 7001. The mechanisms of the 4001, 4011 and 7001 are one and the same, a copy of the Addo 341E mechanism. The model numbers are irrelevant.

ARGUMENT.

Appellants raise numerous points on appeal. Many concern the admissibility of a large number of exhibits. Other issues are the admissions made by appellant Mr. Purer, whether appellants' conduct amounted to fraud and unfair competition, whether the cause of action for trademark infringement should have been dismissed without prejudice, and whether Addo was entitled to recover attorneys fees pursuant to 28 U.S.C.A. §285.

In its complaint Addo charged appellants with patent infringement. Appellants' answer denied the validity of the patents and denied their infringement. The answer also set forth the affirmative defense of a patent license. However, because appellants admitted during the course of discovery and pretrial the validity of the patents and their infringement by appellants, the only issue remaining for trial regarding the patents was whether appellants had obtained the patent license by such fraudulent means as justified Addo's rescission. *Whether the properly admitted evidence established appellants' fraud is the basic question presented by this appeal.* This answering brief, therefore, first takes up the question of whether appellants were in fact guilty of fraud and whether there was sufficient properly admitted evidence to establish that point.

I.

Fraud.

The letters in which appellants stated to Addo that appellants had done the engineering and prototype of an adding machine of their own design which bore only some similarity to Addo's patent and which was not then in production but would go into limited production

at a later date [Exs. 20, 22 and 25] were admitted in evidence without objection. The advertising brochure for the infringing machine [Ex. 33] circulated by appellants immediately after the execution of the license as well as the infringing machines sold by appellants after the license had been rescinded [Exs. 67 and 70] were likewise admitted without objection. The conclusion was inescapable that appellants did not have an adding machine that they had designed and which they thereafter proposed to produce; at the time they wrote Addo requesting the patent license, appellants intended to import an infringing adding machine which appellants knew was already in production.

Had appellants wished to controvert this evidence and the unavoidable conclusions to be drawn from it, they were free to do so. Appellants offered no evidence. Instead, appellants cite numerous cases for the proposition that the proof must be clear and convincing to support the conclusion that a fraud has been perpetrated.* However, appellants present no argument that the statements they made to Addo were anything but clearly and convincingly fraudulent. Appellants simply ignore these statements. Appellants both ignore the fraudulent statements and "the rule that where an appellant claims the findings, or any particular finding, is not sustained by the evidence, he is required to set forth in his brief all of the material evidence and not

---

**Cardozo v. Bank of America*, 116 Cal. App. 2d 833, 837, 254 P. 2d 949 (1953) cited by appellants (Op. Br. p. 52) for the proposition that there can be no actual fraud without an intent to deceive was expressly disapproved on that point in *Gagne v. Bertran*, 43 Cal. 2d 481, 488, 275 P. 2d 15 (1954). The law in California is that a statement is fraudulent when made with intent to induce the recipient to alter his position to his injury or risk. *Gagne v. Bertran, supra.*

merely his own evidence. . . . If it is not done, the error is deemed waived." *Gold v. Maxwell,* 176 Cal. App. 2d 213, 217, 1 Cal. Rptr. 226 (1959).

Except for the conclusory allegation that appellants' statements to Addo were not fraudulent (Op. Br. p. 57), appellants ignore these statements. Instead, appellants argue that Addo was given notice of appellants' intention to import the infringing machine and that Addo had a duty to investigate appellants as a prospective patent licensee. Turning to these two contentions:

1. Appellants' Alleged Notice.

Appellants contend that Addo was given notice of appellants' intention to import the Japanese copy of the Addo adding machine and that the notice was sufficient to require Addo to undertake an investigation of its prospective licensee. This argument ignores the geographical relationship of the parties, assumes that a person in Sweden is unjustified in relying on the representations of a person in California and, despite a distance of 8,000 miles, has readily available the means of an independent investigation.

The basis of appellants' claim of sufficient notice to Addo is the letterhead stationery on which the request for a patent license was written. This claim was specifically rejected by the trial court [Rep. Tr. pp. 456-458].

Appellants' stationery bore at the top the legend PURER & COMPANY. The correct corporate name on the date appellants first wrote to Addo, November 27, 1964, was Tokyo Electric Company International, a fact that was very definitely concealed from Addo by the appellants' letterhead stationery.

At the bottom of appellants' letterhead stationery is a picture of a long, low building beneath which appears the phrase "New Modern Facility in Ohito." The picture of the building is printed in tones sufficiently light that typing or writing over it will be easily legible. On the face of the building in small print, four points or less in type size, appears the blurred legend "TEC" or "TEO." According to appellants' opening brief, adjacent to the legend "TEC" or "TEO" are four "clearly visible" Japanese ideographs (Op. Br. p. 20). If, in fact, they are Japanese ideographs, they are not legible. The legend "TEC" or "TEO" is also so blurred that, unless one's attention is directed to it, it would not be noticed. In cross-examining Addo's president, Gunnar Agrell, appellants' attorney asked if Mr. Agrell had looked at the photograph at the bottom of appellants' letterhead stationery. Despite the fact that he received an unequivocal "no" in answer to the question, appellants' attorney then asked:

> "Q. Now, in looking at your picture, or looking at the letter, did you notice on the picture of the factory the word 'TEC'? A. No.
>
> Q. You didn't notice that all? A. No. I am not using magnifying glasses when reading letters." [Rep. Tr. p. 187].

Appellants argue that the president of Addo had heard of Tokyo Electric Company and TEC prior to the time he received appellants' letter of November 27, 1964 (Op. Br. p. 54). As authority for this statement appellants cite pages 185 and 257 of the Reporter's Transcript. At page 185 appellants' attorney read into the record a portion of an affidavit by Addo's president in which the name Tokyo Electric Company ap-

peared. The affidavit was prepared on November 1, 1965, almost one year after appellants' first letter to Addo. At page 257, appellants' attorney read into the record a portion of the deposition of Addo's president which was taken on December 30, 1966:

> "Mr. Fairfield: Prior to the date of Exhibit D you knew that the Tokyo Electric Company was engaged in, among other things, the business of manufacturing adding machines?
>
> "Mrs. Flesch: I object to that as being a leading question.
>
> "Mr. Agrell: Yes, it did, under the name of Tokyo Denki."

Appellants assert in their opening brief that because the president of Addo knew the name Tokyo Electric Company or "TEC" at the time he executed the affidavit of November 1, 1965, and at the time his deposition was taken on December 30, 1965, he, therefore, had knowledge of the name of Tokyo Electric Company or "TEC" at the time he received appellants' letter of November 27, 1964. Appellants ignore the following testimony of Addo's president:

> "Q. Now, once again, prior to April 1, 1965, had you ever heard the name Tokyo Electric Company? A. No.
>
> Q. Or the name 'TEC'? A. No." [Rep. Tr. pp. 251-252].

The testimony by the president of Addo is without contradiction that he did not learn of the name "TEC" until he received the brochure for the infringing adding machine which was mailed to him on June 17, 1965 [Ex. 31], or until he received Mr. Purer's letter of June 25, 1965 [Ex. 35], in which Mr. Purer stated:

"The manufacturer for Purer and Co. is 'TEC,' which is a subsidary of Toshiba." [Rep. Tr. p. 251]. The testimony is equally clear that the president of Addo never noticed the dubiously legible symbol "TEC" printed on the stationery [Rep. Tr. p. 187].

The president of Addo did testify that it was possible that he observed the phrase "new modern facility in Ohito" at the bottom of the stationery. The president of Addo also testified that he has never been in Japan and does not speak or read Japanese [Rep. Tr. p. 91]. Ohito is not one of the more prominent towns in Japan. It has a population of 10,016. *Columbia Lipincott Gazetteer of the World,* Columbia University Press, New York, 1961 page 1370. Ohito is not listed in the gazetters or shown on the maps of many standard atlases. See *Encyclopedia Britanica World Atlas,* Encyclopedia Britanica, Inc., Chicago, 1966; *Commercial Atlas and Marketing Guide,* Rand McNally & Co., Chicago, 1966; *Hammond's Library World Atlas,* C. S. Hammond & Co., Maplewood, New Jersey, 1965.

Since Ohito is a small town and since appellants could have easily located Ohito to one in Sweden by adding "Japan", it is understandable why the trial court made the following observation: "If that was . . . [Mr. Purer's] intention to convey that . . . [information], he could have at least have said 'Japan.'" [Rep. Tr. p. 458].

To expect a person half-way around the world from Japan to know that Ohito is a Japanese city, when the word "Japan" has been left off, inadvertently or pur-

posely, and also to know that the word "TEC" on the plant stood for Tokyo Electric Company (a company unknown to the president of Addo at that time), is unreasonable.

2. Addo's Duty to Investigate.

Appellants further argue that Addo had the duty to undertake an independent investigation of its prospective licensee and that Addo's reliance on appellants' representations were unjustified.

> "A defendant who misrepresents the facts and induces the plaintiff to rely on his statements should not be heard in an equitable action to assert that the reliance was negligent unless plaintiff's conduct, in the light of his intelligence and information, is preposterous or irrational."
>
> *Van Meter v. Bent Construction Co.* 46 Cal. 2d 588, 595, 297 P. 2d 644 (1956).

A party guilty of an intentional fraud may not set up a defense of the defrauded party's negligence. *Carroll v. Dungey,* 223 Cal. App. 2d 247, 257, 335 Cal. Rptr. 681 (1963). The law in California is that "when contracting parties are adverse to each other, either has the right to rely upon an express statement made by the other of an existing fact of which the truth is known to the other and unknown to him." *Calmon v. Sarraille,* 142 Cal. 638, 642, 76 Pac. 486 (1904); *London v. Guberman,* 214 Cal. App. 2d 215, 220, 29 Cal. Rptr. 279 (1963); *Stevens v. Marco,* 147 Cal. App. 2d 357, 378, 305 P. 2d 669 (1956).

Appellants rely on the case of *Oppenheimer v. Clunie,* 142 Cal. 313, 75 Pac. 899 (1904), for the proposition that a licensor has the duty to investigate a prospective licensee. The *Oppenheimer* case is not in point. Plaintiff there attempted to rescind a lease of a theater five months after the plaintiff had entered into occupancy of the leased premises. The grounds of the claimed rescission were that defendant had failed to inform plaintiff of the inadequacy of exits in the balcony of the leased theatre. The court held that the lessee, having been in possession for five months, was assumed to know the location and size of the exits because they "were patent to anyone." 142 Cal. 317. Such is not the instant case. In this case appellants did not inform Addo of their intention. On the contrary, appellants took great pains to conceal their true intention. When Addo discovered appellants' intention, Addo promptly rescinded the license.

The evidence before the trial court established that appellant Philip Purer had prior business dealings with the Japanese manufacturer of the infringing machine and had been informed by the Japanese manufacturer that it could not allow importation into the United States of such adding machine because of Addo's patent [Rep. Tr. pp. 280-281]. Appellants thereupon made fraudulent statements to Addo claiming to have done the engineering and development work of an adding machine of their own design that bore some similarity to two of Addo's patents and that, if Addo would grant a license for the use of the patents, manufacture of

the machine would thereafter commence. The evidence was clear and convincing that these statements were untrue and allowed no other conclusion than the fact that appellants were guilty of fraud.

3. Evidence of Fraud.

Appellants object to the introduction of numerous exhibits admitted at trial. However, appellants did not object at trial and do not raise objection on appeal to the admission in evidence of the correspondence with Addo where appellants made the fraudulent statements, of the misleading advertising material circulated by appellants and the demonstrated identity of the Addo adding machine and the infringing adding machine. Appellants' objections relate solely to exhibits that go to peripheral issues. (For further consideration of the admissibility of other exhibits, see p. 47, *infra.*)

Appellants apparently argue that there was no admissible evidence before the court establishing that the infringing machine imported and sold by appellants had been in production for some time before appellants first wrote Addo requesting a patent license.

Addo's evidence was more than sufficient to justify the conclusion that the adding machine appellants imported and sold in the United States had been manufactured in Japan for several years prior to appellants' request for a license. It is also questionable that such a conclusion is necessary to establish appellants' fraud. Even had the infringing machine not been in production at the time appellants requested the patent license, appellants' statements would have been untrue.

Among the items of evidence establishing that Toshiba had been engaged in the manufacture of a copy of Addo's Model 341E adding machine for several years prior to November 27, 1964, are the following:

(1) Appellants' advertising materials published in 1965 claim that the infringing machine had a five-year sales history, *i.e.,* it had been for sale since 1960 [Exs. 49 and 52] and that the infringing machine had one-million satisfied users [Ex. 33].

(2) Admissions made by appellant Mr. Purer that he knew the infringing machine was in production by Toshiba before appellants applied to Addo for a license [Rep. Tr. pp. 280-281 and 341].

(3) Photographs comparing the infringing machine and the Addo adding machine taken in 1963 [Exs. 12a through h].

Advertising Materials.

Appellants made no objection to the admissibility of the advertising material that appellants circulated in 1965 [Rep. Tr. pp. 134 and 286]. The letter [Exs. 49 and 52] sent to most of Addo Machine Company's dealers at the end of September 1965, stated that the infringing machine, the 'TEC' adding machine, had "a history of FIVE years top sales experience."* The

---

*Appellants argue (Op. Br. pp. 67-68) that Exhibits 49 and 52 do not refer to the infringing machine, the TEC 7001, but to other machines not involved in this lawsuit, the TEC 7002 and 7003 machines. Appellants ignore the admitted facts of the pretrial order that Exhibits 49 and 52 were part of the advertising campaign to sell the TEC 7001 adding machine [Clk. Tr. p. 536, Par. 11]. Furthermore, the price of the TEC 7001 is listed in Exhibits 49 and 52 as retailing at $189.50, which includes a 40% profit to the retailer, i.e., a wholesale price to the retailer of approximately $114.00. The unit price on the invoice of Purer & Company for the sale of two TEC 7001 adding machines on

brochure [Ex. 33] distributed at the National Office Machine Dealers' Association show at Chicago in June, 1965 claimed over one million satisfied users, a claim that implies a fairly lengthy production history.

If appellants wished to impugn the accuracy or honesty of their advertising, they were free to do so by calling their own witnesses to explain the meaning of their advertising. They chose not to do so. On the contrary, appellants made no objection to the admission in evidence of their advertising materials ,advertising materials which establish that the adding machines appellants imported and sold in the United States had been in production long enough to have a large number of satisfied users, even if one million was "slightly exaggerated" [Ex. 35], and a five-years sales history.

Admissions of Mr. Purer.

Two witnesses, George Agrell, president of Addo Machine Company, and Carl Gronhagen, president of Addo Machine Company's western wholesale distributor, testified to conversations they had with Mr. Purer before this lawsuit commenced. Mr. Agrell testified as follows:

> ". . . Mr. Purer told me that he had been working with the Toshiba people and represented the

---

October 8, 1965 [Ex. 66], was $114.00. The affidavit of Phillip Purer dated December 8, 1965, has attached to it an order for a large number of TEC 7001, 7002 and 7003 adding machines, f.o.b. Japan. The 7002 machines cost $8.50 more than the 7001 and the 7003 costs $25.00 more, a price differential which indicates that the "five years of top sales experience" clearly refers to the TEC 7001 machine retailing at $189.50 rather than the more expensive 7002 and 7003 models. (The affidavit of December 8, 1965, was filed in the trial court but is not part of the record on appeal. Appellees have moved concurrently with the filing of this answering brief to have the affidavit included in the record on appeal.)

TEC adding machine and that he had during—or rather in these business relations with Toshiba he had seen the BC401 machine and had expressed interest to Toshiba to import and market that machine in the United States.

He also then related that Toshiba wasn't [interested] in doing so since they may risk conflict with the patents that A.B. Addo was holding in the United States.

Mr. Purer then declared that this was the reason that he approached A.B. Addo, Malmo, in order to obtain these patents to clear the way for the import of the Toshiba machine in the United States.

. . . .

. . . I also remember that I suggested to Mr. Purer that if he went around the patent, he could possibly import the machines, but then, I said, 'You can naturally not call it an Addo licensed machine,' whereupon Mr. Purer said to me, 'That's just the problem.' " [Rep. Tr. pp. 280-281].

Appellants contend that the certainty of the testimony of Mr. Agrell was destroyed because on cross-examination, it became unclear whether it was Mr. Agrell or Mr. Purer who said the name Toshiba. That portion of the cross-examination went as follows:

"Q. . . . Now, you also recall that he did use the word 'Toshiba'? A. I used the word 'Toshiba.'

Q. Well, how about Mr. Purer'? Did he use the word 'Toshiba'? A. He probably did or didn't. To me Toshiba and Tokyo Electric were the same thing at that time.

Q. I see. I thought you were relating the conversation that Mr. Purer had had with you. A. He had said that he had visited with Toshiba.

Q. He did mention the word 'Toshiba'? A. Yes." [Rep. Tr. pp. 298-299].

Mr. Gronhagen testified as follows: "Yes. He stated that there was no doubt about it that the machine was already in manufacture at the time that he started negotiations for the license agreement." [Rep. Tr. p. 341]. Mr. Gronhagen was not cross-examined on the subject of his meeting with Mr. Purer.

Admissions of a party, although hearsay, can be received in evidence as proof of the truth of the admissions. *Cal. Ev. C.* §1220, *Bonebrake v. McCormick,* 35 Cal. 2d 16, 19, 215 P. 2d 728 (1950); *Kent v. First Trust & Savings Bank of Pasadena,* 101 Cal. App. 2d 361, 373, 225 P. 2d 625 (1950).

Appellants contend that the admissions, or extra judicial statements Mr. Purer made to Mr. Agrell and Mr. Gronhagen are not admissible. Appellants cite *Evis Mfg. Co. v. F.T.C.,* 287 F. 2d 831 (9th Cir 1961), *cert. den.,* 368 U.S. 824, 82 S. Ct. 43 (1961); *Pulver v. Union Inv. Co.,* 279 Fed. 699 (8th Cir. 1922), *Luria Bros. & Co. v. United States,* 369 F.2d 701 (C.C.P.A. 1966), and *Herbert v. Lankershim,* 9 Cal. 2d 409, 71 P. 2d 220 (1937). These cases do not support appellants' contention that Mr. Purer's admissions were inadmissible evidence.

The *Evis* case involved not an extra judicial admission of a party, but the testimony of the party as a witness. In this case, Mr. Purer chose not to be a witness. All the *Evis* case holds is that, had Mr. Purer

taken the witness stand, his testimony as to the conversations with Messrs. Agrell and Gronhagen both as to admissions and to self-serving declarations would be admissible.

In the *Pulver* case, testimony was admitted that a representative of defendant had asked why plaintiff had pursued a certain course of conduct. Plaintiff stated, "You did not perform your contract." Defendant's representative made no statement in reply to this remark and the failure of defendant's representative to reply was held by the trial court to be admissible as an admission against interest. The Court of Appeals held that silence under the circumstances could not be construed as an admission against interest. In this case, silence is not the admission. Mr. Purer was quite voluble in his statement that the infringing machine had been in production and that he had seen it in production well before the time that he applied for a patent license.

The *Luria* case is not a question of an admission against interest. The testimony in question was a statement by an employee of the plaintiff estimating the loss incurred by plaintiff. The Court of Appeals, basing its decision "on the record as a whole and the court's knowledge and experience in such cases" reduced the estimated loss from 30 percent of the total contract cost to 20 percent. The court pointedly observed that the "witness' testimony is not rebutted" and could not be wholly rejected even though his estimate of damages was made as the employee of an interested party. In this case, the testimony of Mr. Agrell and Mr. Gronhagen does not concern estimates. Their testimony is direct and uncontradicted to the effect that Mr.

Purer informed each of them that the adding machine appellants proposed to import and sell had been in production at the time appellants first applied for the patent license.

The *Lankershim* case is equally inapposite for appellants' contentions. The holding of the *Lankershim* case, one of the more colorful cases in California legal history (See, Donald W. Hamblin, *Colonel Lankershim's Note,* 42 Los Angeles Bar Bulletin 314, May 1967) is that the credibility of witnesses appearing in a jury trial is not only a matter for the determination of the jury but can also raise a question of law for the court whether the testimony was inherently improbable. In this case there was no jury. Trial was to the court and the court stated:

> "I believe in that connection that Mr. George Agrell was telling the truth with respect to the conversation with Mr. Purer in September of 1965 in New York, and if Mr. Purer had any contrary account of that meeting, it behooved him to say so." [Rep. Tr. p. 458].

The *Lankershim* case is worthy of note for its holding that the trial court erred in refusing to allow testimony regarding a statement that could be construed as an admission by the plaintiff. "This ruling was prejudicial error. In the first place, it was a declaration against the whole theory of plaintiff's case . . ." 9 Cal. 2d at 464.

Although appellants assert that the statements attributed to Mr. Purer regarding the prior manufacture of the infringing machine cannot be true, because he "never could have received this information from Toshiba" (Op. Br. p. 49) there is no testimony to sup-

port this contention. On the contrary, the testimony [Rep. Tr. pp. 280-281 and 341] was clear, consistent and definite that Mr. Purer on at least two occasions admitted that the infringing machine was in production at the time appellants applied for the patent license and admitted that he had seen it in production.

In *Kent v. First Trust and Savings Bank, supra,* plaintiff claimed that testimony as to his prior acts and statements in fraudulently obtaining a contract were inadmissible. On appeal the court held the evidence admissible because "it tended to indicate a guilty knowledge." 101 Cal. App. 2d at 373. That is what Mr. Purer's express admissions clearly indicated.

Appellants further contend that the testimony of Mr. Gronhagen regarding conversations with Mr. Purer should not have been admitted because appellants had sought by interrogatory to learn the substance of these conversations [Clk. Tr. p. 486] and, when the interrogatories were not answered fully, appellants' motion, made two months before commencement of the trial to have the testimony of Mr. Gronhagen excluded, was denied.

Appellants state that "the trial court refused to allow discovery proceedings to determine what was said" in the conversations between Mr. Gronhagen and Mr. Purer (Op. Br. p. 50). The statement is not correct. The court, ruling on appellants' motion to preclude the testimony of Mr. Gronhagen, which ruling was made nearly two months before the commencement of the trial, held that appellants could not demand a detailed description by answers to interrogatories of a prospective witness' testimony [Rep. Tr. of Dec. 12, 1966, p. 6]. The ground for such holding was that a detailed

description of a conversation would constitute an improper effort to limit a party's flexibility in the conduct of the trial. *United States v. Renault, Inc.*, 27 F.R.D. 23, 29 (S.D. N.Y. 1960), *Central Hide & Rendering Co. v. B.M.K. Corp.*, 19 F.R.D. 294 (D. Del. 1956).

Mr. Gronhagen was first identified by Addo as a prospective witness in answers to appellants' interrogatories that were served and filed on March 31, 1966 [Clk. Tr. p. 274]. Appellants were free to take Mr. Gronhagen's deposition at any time before the trial. Indeed, when shortly before the pretrial hearing appellants were given the name of an additional prospective witness, appellants reserved the right at the December 12 pretrial hearing to take the deposition of that prospective witness a few days before the trial. Appellants could have requested the same permission to depose Mr. Gronhagen.

The Photographs.

Appellants argue at length that the photographs taken at Addo's laboratories [Rep. Tr. p. 48] in Sweden and sent to its agent in Japan in 1963 [Ex. 14], comparing the Addo adding machine and the infringing machine should not have been admitted. Appellants contend that the photographs were secondary evidence and that the original adding machine should have been used. Appellants have completely missed the point for which the photographs were offered and received in evidence. The court had before it the Addo adding machine and the infringing machine [Exs. 6, 67 and 70]. The court by comparing the photographs and the adding machines that were admitted in evidence could readily determine that the photographs were of the same model adding machines as were physically before

the court. The obvious conclusion was that the infringing machine was being manufactured when Addo took the photographs and sent them to its agent in Japan in 1963.

II.

Unfair Competition.

The evidence established that appellants, after they had been notified of the rescission of the patent license, continued to import and sell the infringing machine [Exs. 66, 67 and 70] and advertised that the manufacturer of the machine was authorized by Addo [Exs. 49 and 52]. The judgment of the trial court permanently enjoins appellants advertising or claiming that appellants are in any way connected with Addo or Addo Machine Company.

Appellants' right to import and sell adding machines incorporating the inventions disclosed in Addo's patents having ceased upon the rescission of the license agreement, appellants continued use of Addo's patents, constituted unfair competition within the meaning of 28 U.S.C.A. §1338(b). *Pursche v. Atlas Scraper & Engineering Co.*, 300 F. 2d 467, 483 (9th Cir. 1962) *cert. den.* 371 U.S. 911, 83 S. Ct. 251 (1962).

Appellants' unfair competition went further than the continued use of the patents they were no longer entitled to use. Appellants, after the license was rescinded, represented [Exs. 49 and 52] that they were selling an Addo licensed adding machine. Even when the license agreement was in effect, appellants could not claim that the manufacture of the entire adding machine that was imported and sold by appellant was done so pursuant to license from Addo. All that Addo had ever purported to

authorize appellants to do was to use the two patents for parts in an adding machine designed by appellants, not to authorize appellants to build an adding machine. Such representation was misleading advertising and constituted unfair competition in that it was an attempt to appropriate Addo's trade name and to inform Addo adding machine dealers that by handling the infringing machine they would be able to use the trained service personnel, the tools and the parts that were used in the servicing and repair of Addo's adding machine. As was held in *Hanson v. Triangle Publications,* 163 F. 2d 74, 78 (8th Cir. 1947), *cert. den.* 332 U.S. 855, 68 S. Ct. 387 (1947) and quoted approvingly in *Stork Restaurant v. Sahati,* 166 F. 2d 348, 355 (9th Cir. 1948):

> "Under present general law, the use of another's names or name, even in a non competitive field, where the object of the user is to trade on the other's reputation and goodwill, *or where that necessarily will be the result,* may constitute unfair competition. [Cases cited.]"

Advertising such as that employed by appellants which states or suggests that the one advertising possesses the goodwill of one well known in business when such is not the fact, constitutes unfair competition. *Metro-Goldwyn-Mayer, Inc., v. Lee,* 212 Cal. App. 2d 23, 29, 27 Cal. Rptr. 833 (1963), *Hoover Co. v. Groger,* 12 Cal. App. 2d 417, 419-420, 55 P. 2d 529 (1936).

Appellants contend that there could be no cause for unfair competition, ignoring that patent infringement in itself is unfair competition, because Addo gave no proof that its name had acquired a secondary meaning. The evidence established that Addo has been in busi-

ness since 1918 [Rep. Tr. p. 12], sells its products throughout the world [Rep. Tr. p. 14] and, with its subsidiaries and authorized agents, is the exclusive user of the name Addo [Rep. Tr. p. 166]. The evidence further established that Addo Machine Company has devoted a substantial sum to advertising and publicity in recent years [Ex. 48; Rep. Tr. p. 269].

However, appellants have misunderstood the nature of the claim of unfair competition by Addo and Addo Machine Company. It was not that appellants were engaged in palming off their infringing machine as being the Addo adding machine because of a confusing similarity in the external appearance of the machines or by affixing to the infringing machine Addo's trademarks "Addo" and "Addo-X" [Clk. Tr. pp. 23 and 24]. The gravamen of the claim of unfair competition in this case is that appellants were engaged in holding themselves out as possessing something they did not possess, *i.e.,* that they possessed the goodwill of Addo, that they were the importers and sellers of an adding machine in some manner authorized or approved by Addo and that they were the holders of a patent license from Addo. These representations were made, not to the consuming public at large, but to Addo's customers, the dealers in adding machines. These dealers could readily ascertain that appellants' infringing machine was so exact a copy of the Addo adding machine that they would be able to use the personnel trained in schools sponsored by Addo Machine Company and would be able to use the special tools and the stocks of parts used in the servicing of Addo adding machines. This is the kind of conduct which was held enjoinable unfair competition in *Upjohn Co. v.*

Schwartz, 246 F. 2d 254 (2d Cir. 1957). In the *Upjohn* case the court stated:

> "The court is of the opinion that the record herein supports the conclusion that the . . . [advertising materials] in question when distributed to druggists and pharmacists were to be used as guides for substitution and that defendant intended such use. . . .
>
> In Zangerle & Peterson Co. v. Venice Furn. Novelty Mfg. Co., 7 Cir., 1943, 133 F.2d. 269, Judge Minton expressed a rule of unfair competition which is applicable to the facts of the case at bar. The law permits the copying of an article of merchandise that is not covered by a valid patent, if the copying party 'does not represent the copies as the product of the party making the original and does nothing in the merchandising of the goods to induce (his) customers to engage in 'palming off' or to indicate to them how they may 'palm off' the copy as the product of the original maker.' . . .
>
> An unfair course of dealing, *even without proof of an established secondary meaning,* constitutes unfair competition." 246 F. 2d at 261.

Appellants' unfair competition consisted of advertising as true that which was untrue in an effort to appropriate part of the business and goodwill of Addo and Addo Machine Company. Appellants are free to compete. They can sell any kind of adding machine so long as they do not infringe patents, but they cannot unfairly compete either by infringing patents or by infringing the goodwill of Addo and its authorized United States distributor, Addo Machine Company. Both the facts

of this case as they relate to unfair competition and the scope of the injunctive relief granted are very similar to the facts and relief in *Volkswagenwerk, G.m.b. H. v. Frank*, 198 F. Supp. 916 (D. Colo. 1961). See *Ford Motor Co. v. Benjamin E. Boone, Inc.*, 244 Fed. 335, 338 (9th Cir. 1917).

III.

Dismissal of Trademark Infringement Claim.

The second cause of action in the complaint was one for trademark infringement. Addo is the owner of the registered trademarks "Addo" and "Addo-X" written in a cursive script [Clk. Tr. pp. 23-24]. During the course of discovery it became apparent that appellants, notwithstanding their other unlawful activities, had not infringed the trademarks. Appellants had represented to adding machine dealers that they had a license from the Addo company but they had not used "Addo" or "Addo-X" on their adding machines or in their advertising materials in that style of script for which Addo is the owner of the trademark. When discovery revealed the absence of trademark infringement, the pretrial conference order drafted by Addo's attorneys did not include trademark infringement as an issue and at the pretrial conference the claim of trademark infringement was dismissed without prejudice.

Appellants argue that the trademark infringement cause of action should not have been dismissed without prejudice. Instead, appellants contend that the court should have ordered the United States Patent Office to cancel the trademarks and remove them from the trademark register. The trial court acted within its discretion in dismissing without prejudice the trademark infringement cause of action. The purpose of discovery

and of pretrial procedures is to define and narrow the issues in a lawsuit. That is exactly what happened in this case.

In dismissing the trademark infringement cause of action without prejudice, the trial court acted within its discretion pursuant to Fed. R. Civ. P. 16 and 41(a)(2). Although there is a split in authority as to whether the provisions of F. R. Civ. P. 41 apply to a single cause of action as distinguished from the entire complaint, the better view is that it does apply to a single cause of action. See, *Johnson v. Cartwright,* 355 F. 2d 32, 39 (8th Cir. 1966), 5 *Moore's Federal Practice* 41.06.1, p. 1087 (2d ed. 1966).

Appellants' attorney contended at the pretrial conference that appellants should be awarded their attorney's fees in opposing the trademark infringement cause of action. The trial court at that time stated that it would take into consideration the work done by appellants' attorney in opposing the trademark infringement cause of action. After trial at the hearing on appellants' motion for a new trial and to amend findings of fact and conclusions of law, the trial court stated that appellants might have been entitled to some attorney's fees for the work done in opposing the trademark infringement cause of action but that such fees, if any, were more than offset by Addo's attorneys' fees incurred in resisting the motion for new trial and to amend findings of fact and conclusions of law [Rep. Tr. of May 29, 1967, p. 519]. Clearly, the court was aware of its discretionary authority under Fed. R. Civ. P. 41(a)(2) and, leaving exercised its discretion, the judgment of dismissal is not reversible on appeal. *American Cyanamid Co. v. McGhee,* 317 F. 2d 295, 298 (5th Cir. 1963).

IV.

Patent Infringement and Attorneys' Fees.

Appellants' final contention is that this was not a suit for patent infringement but merely a suit for rescission of a contract. This ignores the judgment that was rendered. If this suit had been only a contract suit, the judgment could have been nothing more than a declaration that the contract, the patent license, was rescinded. That is neither the relief that Addo sought nor the relief that Addo obtained.

Addo sued for patent infringement claiming its patents valid and infringed. The patent infringement cause of action [Clk. Tr. pp. 2-4] was pleaded in the complait in the manner set forth in Form 16 of the Appendix of Forms to the Federal Rules of Civil Procedure. Appellants answered the complaint by denying validity of the patents, denying infringement and affirmatively claiming a patent license. Before trial, appellants conceded the validity of the patents and conceded that appellants were infringing the patents. But, that does not change the fact that appellants were free to contest the validity of the patents or contest the infringement of the patents. Had appellants chosen to do so, the burden was upon appellants to establish either the invalidity of the patents or their non-infringement by appellants. 35 U.S.C.A. §282, *John Deere Co. of Kansas City v. Graham,* 333 F. 2d 529, 530 (8th Cir. 1964), *aff'd.* 383 U.S. 1, 86 S. Ct. 684 (1966); *General Tire & Rubber Co. v. Watkins*, 326 F. 2d 926, 928 (4th Cir. 1964), *cert. den.* 377 U.S. 909, 84 S. Ct. 1166 (1964); *Davis v. Buck-Jackson Corp.*, 230 F. 2d 655, 656 (4th Cir. 1956), *cert. den.* 351 U.S. 950, 76 S. Ct. 846 (1956); *N.S.W. Co. v. Wholesale Lumber*

& Millwork, Inc., 123 F. 2d 38, 41 (6th Cir. 1941); *Tate v. Baltimore & Ohio R.R. Co.*, 229 Fed. 141, 143 (4th Cir. 1915). The fact that appellants waived their right to attack the validity of the patents and chose to rely solely on the claim of license does not make this case any less a patent case. *General Tire & Rubber Co. v. Watkins, supra.*

Appellants maintain that the question of validity of the patents is a question of law and that a court must undertake a determination of the validity of the patents before enjoining their infringement. Appellants rely on *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 86 S. Ct. 684 (1966), and *Bentley v. Sunset House Distributing Corp.*, 359 F. 2d 140, 143 (9th Cir. 1966). Both the *Graham* and *Bentley* cases were suits in which the validity of the patent was a contested issue at trial. In this case appellants chose not to contest the validity or the infringement of the patents. The patents were presumptively valid and if appellants wished to challenge that validity, they had the burden of proof. 35 U.S.C.A. §282.

Appellants further rely on *Sinclair & Carroll Co. v. Interchemical Corp.*, 325 U.S. 327, 330, 65 S. Ct. 1143 (1945). The Supreme Court there held that the trial court should not have determined that the patents were not infringed without first determining the scope of the patents. Since appellants in this case conceded both the validity and the infringement, there was no reason to determine the scope of the patents in order to determine whether the patents were infringed. The issue was not presented to the trial court because of appellants' concession of both validity and infringement of the patents.

Appellants not only maintain that this case was not one for patent infringement, appellants contend that Addo should not have recovered its attorney's fees as authorized by 35 U.S.C.A. §285. Section 285 authorizes the award of reasonable attorney's fees to the prevailing party in exceptional cases. Attorney's fees are not awarded in ordinary patent cases. Their award depends upon two things:

1. The case must have been an exceptional one involving unfairness, bad faith, or some other form of inequitable conduct on the part of the losing party, *Rohr Aircraft Corp. v. Rubber Teck, Inc.*, 266 F. 2d 613, 624 (9th Cir. 1959); *Merrill v. Builders Ornamental Iron Co.*, 197 F. 2d 16, 25 (10th Cir. 1952); *Park-In Theatres v. Perkins,* 190 F. 2d 137, 142 (9th Cir. 1951), and,

2. The trial court must specifically find that it is an exceptional case, *Binks Mfg. Co. v. Ransburg Electro-Coating Corp.*, 281 F. 2d 252, 260 (7th Cir. 1960), *cert. dismissed* 366 U.S. 211, 81 S. Ct. 1091 (1961). In this case the trial court found that appellants had been guilty of fraud in obtaining the patent license and, after the patent license had been rescinded, knowingly continued their patent infringement. The conclusion that appellants were guilty of bad faith and inequitable conduct was fully justified by the evidence before the trial court. The trial court specifically found that appellants' conduct made "this an exceptional case in which an award to Addo of its attorney's fees and expenses should be granted." [Find. of Fact 73, Clk. Tr. p. 603].

Where the basis of the trial court's award of attorney's fees has been clearly stated, the Court of Ap-

peals will not interfere with that award except upon a clear showing of abuse of discretion. *Shingle Product Patents v. Gleason,* 211 F. 2d 437, 441 (9th Cir. 1954); *Dubil v. Rayford Camp & Co.,* 184 F. 2d 899, 903 (9th Cir. 1950).

Appellants also object to the taxing of costs to include the actual travel expenses incurred in the taking of a deposition in Sweden and in bringing witnesses from Sweden and New York to California. The former rule in the Ninth Circuit has been that travel expenses are not allowed for travel beyond the area in which a subpoena of the trial court could be effectively served. *Kemart Corp. v. Printing Arts Research Lab.,* 232 F. 2d 897, 902 (9th Cir. 1956). However, the Supreme Court has more recently held that the taxation of actual travel costs is within the discretion of the trial court. *Farmer v. Arabian American Oil Co.,* 379 U.S. 227, 232, 85 S. Ct. 411 (1964). Exercising its discretion, the trial court concluded that the actual travel costs in this case were taxable costs to be assessed against appellants.

V.

Documents Admitted in Evidence.

Appellants complain of the admission in evidence of a large number of documents primarily on the ground that the documents in question were hearsay. However, appellants do not explain in what manner, if any, they were prejudiced by the receipt of such documents. Fed. R. Civ. P. 61 states in part:

> "No error in either the admission or the exclusion of evidence and no error or defect in any ruling or order . . . is ground for granting a new trial

> or for setting aside a verdict or for vacating, modifying, or otherwise disturbing a judgment or order, unless refusal to take such action appears to the court inconsistent with substantial justice."

See, *Ginsburg v. Ginsburg,* 276 F. 2d 94, 96 (9th Cir. 1960), *cert. den.* 364 U.S. 934, 81 S. Ct. 381 (1961).

Appellants have not claimed or shown in their motion for new trial that the admitted evidence was prejudicial. If there was error in its admission, it was harmless. Furthermore, since this was a trial to the court the presumption is that if any incompetent evidence was admitted it was disregarded. As stated in *Thompson v. Carley,* 140 F. 2d 656 (8th Cir. 1944):

> "In a nonjury case, the presumption is that the trial court considered only the competent evidence and disregarded all evidence which was incompetent. . . . This court will not reverse a trial court in a nonjury case for having admitted incompetent evidence, whether objected to or not, unless all of the competent evidence is insufficient to support the judgment appealed from or unless it affirmatively appears from the record that the incompetent evidence complained of was relied upon by the trial court and induced the court to make an essential finding which would not otherwise have been made." 144 F. 2d at 660.

The basis for admission of the 1963 photographs has been previously considered (*supra,* pp. 37-38). Turning to some of the specific documents to which appellants take exception:

1. Financial Reports.

The 1966 annual report of Addo [Ex. 3] was introduced as were two documents [Exs. 4 and 48] summarizing the business records of Addo and Addo Machine Company. These documents went to the peripheral issues of the scope of the operations of Addo and Addo Machine Company and the amount that they had invested in engineering, research, advertising and publicity. Such summaries are admissible "when the original consists of numerous . . . documents, which cannot be examined in court without great loss of time, and the evidence sought from them is only the general result of the whole." *Cal. Ev. C. §1509, In Re Cathey,* 55 Cal. 2d 679, 692, 12 Cal. Rptr. 762, 361 P. 2d 426 (1961).

2. Correspondence With Addo's Japanese Agent.

The letters to and from Addo's Japanese agent [Exs. 8, 9, 10, 11, 13, 14 and 16], were sufficiently authenticated and were admissible as an exception to the hearsay rule. The purpose of the introduction of the letters from Addo's Japanese agent was to establish the state of mind of Addo's president and explain the course of conduct that he then followed. The letters received from the Japanese agent were not offered for the truth of what they said. *Phillips v. United States,* 356 F. 2d 297, 307 (9th Cir. 1965).

Appellants also object to the correspondence with Addo's Japanese agent on the ground that no foundation or authentication was made of the letters. A foun-

dation showing Addo's receipt of the letters from the Japanese agent was laid [Rep. Tr. pp. 39-40], Addo's response to this letter [Rep. Tr. p. 42] and the ensuing chain of correspondence. When, as here, the writing was introduced not for the purpose of showing the truth of what is contained in the writing but to show reliance upon it, authentication is complete upon the showing of receipt. As stated in the comments to Section 1401 of the California Evidence Code:

> "The Evidence Code defines the term [authentication] more broadly and requires all writings to be authenticated. The writing involved in the *Adamson* case was a letter that a witness claimed he had received and acted upon. Under the Evidence Code, the requirement of authentication would require a showing that the letter offered in evidence was in fact that one received and acted upon; and this is the preliminary showing that was found sufficient in the *Adamson* case."

Appellants further question why the correspondence was in English. The answer is simply that Addo's agent in Japan was a Dutch firm and that English, not Dutch or Swedish, is the language of international commerce.

3. Correspondence With Tokyo Electric Company.

Appellants object to Exhibits 17, 18 and 43 which are two letters from Addo [Exs. 17 and 18] and a letter in reply from Tokyo Electric Company [Ex. 43]. The letters from Addo were authenticated [Rep. Tr. pp. 65-66] and the letter from Tokyo Electric Company was self-authenticating as a response. *Cal. Ev. C. §1420 and 1421.*

Since the letter from Tokyo Electric Company was not offered for the truth of what was stated in it, but only to show receipt by Addo of what purported to be a photograph of the new model Toshiba adding machine, there was no hearsay problem with the letter.

4. Correspondence Between Addo and Addo Machine Company.

Appellants object to what they refer to as "inter-office" memoranda. The letters [Exs. 29, 30 and 31] are letters between the president of Addo and the president of Addo Machine Company. These letters were not introduced for the truth of their contents. They were admitted for the purpose of showing the state of mind of Addo's president.

5. Dun & Bradstreet Report.

The Dun & Bradstreet report was not admitted for the proof of its contents but only to show further information received by Addo leading to Addo's decision to rescind the patent license because it thought it had been defrauded by appellants. The truth of the fact that Purer & Company had originally been incorporated as Tokyo Electric Company International and changed its name after commencing negotiations for the patent license was conceded in the pretrial order [Clk. Tr. p. 536].

6. Letters From Addo Dealers.

Letters from Addo dealers showing their state of mind after receiving the notice from appellants that appellants were selling what was claimed to be an Addo licensed machine were admissible. *Phillips v. Glazer,* 94 Cal. App. 2d 673, 676, 211 P. 2d 37 (1949).

7. The Evidence Supports the Findings.

Appellants argue that the findings of fact are not supported by the evidence before the trial court (Op. Br. Appendix B). The arguments set forth in Appendix B are the same as those set forth in appellants' motion for a new trial [Clk. Tr. pp. 693-707]. For the most part they repeat appellants' objections to documents and objects received in evidence. Appellees filed a memorandum in the trial court opposing appellants' motion [Clk. Tr. pp. 722-726] and the motion was denied by the trial court [Rep. Tr. pp. 507-517]. Appellants have not raised new matters in their argument that the findings are not supported by the evidence and appellees rely upon their memorandum opposing the motion in the trial court and upon the ruling of the trial court. Appellees' memorandum includes citations to the reporter's transcript and to the exhibits as required by Rule 18(3) of the Rules of the United States Court of Appeals for the Ninth Circuit.

Conclusion.

Appellants attack the judgment of the trial court entered after:

1. The court had heard three days' testimony consisting of 427 pages of reporter's transcript.

2. The court had examined more than 70 documents and objects.

3 The court had observed the interchange of parts of the Addo machine and the infringing machine and the operation of the "mongrelized" machines.

4. The court had conducted a post trial hearing and reviewed affidavits in determining the amount of attorney's fees awarded Addo.

5. The court heard and denied appellants' motion to amend the findings of fact and conclusions of law and for a new trial.

The evidence before the trial court justified the conclusion that appellants had not done the engineering or prototype of their own design of adding machine which would go into production at some later date. On the contrary, the evidence amply supported the conclusion that appellants intended to import and sell the infringing machine as they, in fact, did and that appellants deliberately lied to Addo to obtain the patent license. This conclusion was not merely justified by the evidence, it was inescapable. If appellants knew of any evidence to the contrary, they were free to present it to the trial court. Appellants called no witnesses and offered no testimony on their own behalf at trial.

Nevertheless, appellants now urge the Court of Appeals to reexamine the evidence, the findings of fact and conclusions of law and arrive at a contrary judgment. The Court of Appeals has forcefully stated its position that this is not its function. *General Cas. Co. v. School Dist. No. 5,* 233 F. 2d 526 (9th Cir. 1956), quotes approvingly from *Cleo Syrup Corp. v. Coca-Cola Co.,* 139 F. 2d 416, 417 (8th Cir. 1943) *cert. den.* 321 U.S. 781, 64 S. Ct. 638 (1944), to the effect that:

> "This Court, upon review, will not retry issues of fact or substitute its judgment with respect to such issues for that of the trial court. [Citing cases.] The power of a trial court to decide doubtful issues of fact is not limited to deciding them correctly. [Citing cases.] In a non-jury case, this court may not set aside a finding of fact of a trial

> court unless there is no substantial evidence to sustain it, unless it is against the clear weight of the evidence, or unless it was induced by an erroneous view of the law. [Citing cases.]" 233 F. 2d at 527-528.

In this case the trial court heard the testimony of the witnesses and stated specifically that it believed the testimony of one particular witness as to the conversations with appellant Mr. Purer [Rep. Tr. p. 458]. Having had the opportunity of observing the demeanor of the witnesses and of hearing their testimony, the judgment of the trial court should not be set aside. *Tonkoff v. Barr,* 245 F. 2d 742, 750 (9th Cir. 1957).

Because the evidence clearly supported the judgment, appellees respectfully submit that the judgment of the trial court should be affirmed. Appellees further request that the Court of Appeals award Addo its attorney's fees incurred in this appeal, *Laufenberg, Inc. v. Goldblatt Bros., Inc.,* 187 F. 2d 823, 825 (7th Cir. 1951), or that the trial court be instructed to award such attorney's fees. *Brennan v. Hawley Products Co.,* 98 F. Supp. 369, 370 (N.D. Ill. 1951).

Respectfully submitted,

McCutchen, Black, Verleger & Shea,
G. William Shea,
Franklin H. Wilson,
Attorneys for Appellees.

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Franklin H. Wilson

No. 22037

In the United States Court of Appeal

For the Ninth Circuit

PURER & COMPANY and PHILLIP PURER,
Appellants,
vs.
AKTIEBOLAGET ADDO and ADDO MACHINE COMPANY, INC.,
Appellees.

APPELLANTS' REPLY BRIEF

JOSEPH W. FAIRFIELD,
ETHELYN F. BLACK,
ALFRED W. OMANSKY,
8500 Wilshire Boulevard,
Beverly Hills, Calif. 90211
Attorneys for Appellants.

WESTERN PRINTING COMPANY, WHITTIER—OXBOW 8-1722

TOPICAL INDEX

TABLE OF CASES AND AUTHORITIES CITED

Cases

Authorities

In the

United States Court of Appeal

For the Ninth Circuit

PURER & COMPANY and PHILLIP PURER, *Appellants,* vs. AKTIEBOLAGET ADDO and ADDO MACHINE COMPANY, INC., *Appellees.*	No. 22037

APPELLANTS' REPLY BRIEF

Appellants in their opening brief have carefully detailed the errors resulting in an adverse judgment and which requires a reversal. Strangely respondents have declined to discuss these specific charges of error but instead have adopted the position that the judgment is correct because the trial court ruled that way. As respondents state (Resp. Br. p. 54):

> "In this case the trail court heard the testimony of the witnesses and stated specifically that it believed the testimony of one particular witness to conversations with appellant Mr. Purer [Rep. Tr. p. 458]. Having had the opportunity of observ-

ing the demeanor of the witnesses and of hearing their testimony, the judgment of the trial court should not be set aside."

The fact still remains that appellants' specifications of errors (Op. Br. pp. 25-30) are ignored by respondent and it is these errors that require a reversal of this action.

I

REGARDING THE EXHIBITS THAT WERE ADMITTED INTO EVIDENCE OVER OBJECTION.

1. Respondents argue that the financial Reports (Exhibits 3, 4, and 48) are admissible as summaries when the originals are voluminous (Resp. Br. p. 49), but ignores appellants' contention that summaries may *not* be used (Op. Br. pp. 32-34) unless you first establish:

a. That the original records are admissible.

b. That the proferred documents are actually summaries of the original records.

c. That the opposing side has had a reasonable opportunity to examine the original records.

Since none of the above was done in this cause, the "summaries" were not admissible.

2. Respondents concede that the Lindoteves-Jacoberg correspondence (Exhibits 8, 9, 10, 11, 13, 14 and 16) were not offered for the truth of what they said

(Resp. Br. p. 49) which is appellants' position (Op. Br. p. 36), and ignore appellants' further contention that since these documents are not in evidence for the truth of their contents, their contents may not be used for proof that:

> a. Toshiba Model 4001 is an exact copy of plaintiff's Model 341E.
>
> b. A dispute existed between plaintiff and Toshiba as to Toshiba's copying its Model 341E.
>
> c. Plaintiff attempted to halt Toshiba's copying its Model 341E.

Thus, there is no evidence to establish respondents' basic premise as to what, if anything occurred between Aktiebolaget and Toshiba in 1963.

3. On pages 37-42 appellants set forth the legal and factual reasons why Exhibits 12a - 12h incl. and 44a (photographs) should not have been received into evidence. These errors are ignored. Instead respondents state (Resp. Br. p. 48):

> "The basis for the admission of the 1963 photographs has been previously considered (*supra,* pp. 37-38)."

Pages 37-38 referred to contain the following language:

> "The Court by comparing the photos and the adding machines that were admitted in evidence

could readily determine that the photographs were of the same model adding machines as were physically before the court."

But this could be done only if the photographs were properly in evidence and it is not an answer to the charge that it was error to have received them in evidence. And although respondents mention the 1963 photographs, it ignores Exhibit 44a, the unidentified photograph enclosed in a letter dated after the law suit was commenced and which photograph was admitted into evidence only on the special representation of plaintiff's counsel that he will establish that the machine shown in Exhibit 44a is Model 4001 and that it is the same as Model 4011 (R. T. pp. 143-147; 157). This specific representation, however, was never established.

4. Appellants will not belabor respondents' argument that Exhibits 17, 14 and 43 were properly authenticated (Resp. Br. p. 50). Appellants position is that they were not. (Op. Br. pp. 40-42.)

However, what is of interest is what is stated in Respondents' Brief on Page 51 regarding Exhibit 43:

> "Since the letter from Tokyo Electric Company was not offered for the truth of what was stated in it, but only to show receipt by Addo of what purported to be a photograph of the new model Toshiba Adding Machine, there was no hearsay problem with the letter."

Since Exhibit 43 is not in evidence for the truth of its contents, appellants still do not understand how respondents can argue that the identification and description of the enclosure therein, (Ex. 44a) is not predicated on the truth of the contents of this letter.

5. On page 51 in referring to the letters received by Addo from its dealers, respondents state:

> "Letters from Addo dealers showing their state of mind after receiving the notice from appellants that appellants were selling what was claimed to be an Addo licensed machine were admissible. (*Phillips v. Glazer,* 94 Cal. App. 2d, 673, 676, 211 P. 2d 37 (1949)."

These letters were not admissible (Op. Br. pp. 43-45), and *Phillips v. Glazer* refers to the state of mind of the witnesses on the stand, not of some third person, not present in court, and not subject to cross-examination.

POINT II

REGARDING THE EXTRAJUDICIAL STATEMENTS OF DEFENDANT.

Appellant discusses in Point III respondents argument to this point.

POINT III

REGARDING THE FRAUD OF THE DEFENDANTS.

1. On page 30 of its brief, respondents recite what it considered the items that establish the fraud of appellants and which respondents contend establishes

> " . . . that Toshiba had been engaged in the manufacture of a copy of Addo's Model 341E adding machine for several years prior to November 27th, 1964." (Resp. Br. p. 30.)

Respondents list this evidence as follows (Resp. Br. p. 30):

a. Appellants advertising material, Exhibits 49, 52 and 33.

b. Extrajudicial admissions of Purer to Gunner Agrell and Gronhagan.

c. Photographs. (Exhibits 12a-12h)

Appellants answer these assertions as follows:

a. Exhibits 49 and 52 do not contain the meaning that respondents impugn to it. This letter of September 30th, 1965 after referring to the general background of "TEC", clearly states:

"... the New 'TEC' Adding Machine is being introduced into the United States market . . . ",

indicating that it is a recent product not an old machine.

Although Exhibit 33 refers to "over one million satisfied users," it is conceded by all that this is not a correct statement, and grossly exaggerated (cf. Exhibit 35). Moreover, Exhibit 33 makes no mention of plaintiff's machines or its patents.

Since the language in these exhibits is clear, unquestionably this court will render its own conclusion as to its meaning. But it is also interesting to note that although respondent emphasizes that Exhibit 52 was sent to most of Addo's dealers, respondent produced no witnesses to testify that they understood Exhibit 52 to mean what respondent contends it means.

Ermolieff v. R.K.O. Radio Pictures, 1942, 19 C. 2d 543, 551, 122 P. 2d 3;

Body-Steffner Co. v. Flotill Products, 1944, 63 C. A. 2d 555, 559, 147 P. 2d 84;

Asso. Lathing etc. Co. v. Louis C. Dunn, Inc., 1955, 135 C. A. 2d 40, 47, 286 P. 2d 825.

b. On page 33 Respondents state:

"Appellants contend that the admissions or extrajudicial statements of Mr. Purer made to Mr. Agrell and Mr. Gronhagan are not admissible."

Appellants of course made no such statement.

What appellants did state, and urge, is clearly set forth on page 49 of their brief:

> "An analysis of the testimony of these two witnesses, however, does not indicate that Purer practiced any fraud upon plaintiff Aktiebolaget, for what these witnesses contend Purer stated to them does not rise to the dignity of evidence sufficient to sustain a finding. Substantial evidence is more than a [mere] scintilla and must do more than create a suspicion of the facts established."

Appellant repeats that what these witnesses summarize Mr. Purer stated to them is not substantial evidence (Op. Br. pp. 46-51), and it is unfortunate that respondent did not discuss the meaning of what Purer is alleged to have said rather than its admissibility. As appellant pointed out in its brief, it is what Mr. Purer actually said, rather than the witnesses interpretation of what he said that can form the basis of whether the statement amounted to an admission.

c. As to the photographs, Exhibits 12a - 12h:

1. They should not have admitted into evidence (Op. Br. pp. 37-40)

2. The photographs do not show any similarity between the machines depicted and exhibits 6, 67 or 70 by mere inspection, and there was no evidence by any witness that there were any such similarities.

2. Without any reference to the record to support their claim, respondents state:

> "The mechanism of the 4001, 4011 and 7001 are one and the same, a copy of the Addo 341E mechanism" (Resp. Br. p. 20)

While counsel for defendant stipulated that Model 4011 and 7001 are the same, it carries no proof that the mechanism in 4001 is the same as in 4011 and 7001; or that they are a copy of 341. Appellants repeat that respondents failed to produce any evidence to sustain this claim, nor indicate in its brief where such evidence exists.

3. Respondents argument that Purer did not have an adding machine that he designed when he wrote Exhibit 20 (Resp. Br. p. 22) and that Model 7001 was in existence long before he dispatched Exhibit 20 to Aktiebolaget (Resp. Br. pp. 30-31) is not supported by this record. Although respondents conducted extensive discovery proceedings including an examination of documents (Resp. Br. p. 6), they were unable to establish the sale of a single TEC 7001 adding machine or any model listed in Exhibit 52 prior to October, 1965 (Exhibit 66) or that these machines were in existence prior to June 1965 when it was displayed at the NOMDA Show (Exhibit 31).

The footnote in respondents' brief, p. 30, and the exhibits referred to, also will show that prior to June, 1965, appellants' machines did not exist.

4. Respondents' conclusion that the prototype referred to in Exhibit 20 was merely a redesigned Toshiba adding machine (Resp. Br. pp. 2, 22) also is without evidentiary support. Respondents seem to be aware that this contention is unsupported by the record for they insist that defendants must disprove the claim rather than plaintiffs sustain it, rejecting the basic legal requirement that the burden is on the party who asserts a claim or fact (Cal .Ev. Code, Secs. 500, 550).

For example in referring to Finding No. 43 respondents state (C.T. p. 724):

> "If defendants wished to introduce their alleged prototype in evidence they could have done so. The burden was on defendants. (Plaintiffs were prepared to introduce evidence that the alleged prototype was no prototype but simply a Toshiba manufactured adding machine that had been disassembled and reassembled in this country. It did not constitute a prototype.)"

5. On pages 23 to 29 of its brief, respondent attempts to exculpate Gunner Agrell's conduct upon his receipt of Exhibits 20, 22 and 25. Again without going into the explanation of whether the picture on the letters should have or should not have been seen by Mr. Agrell, or whether it is unreasonable for Mr. Agrell to know the existence of a city in Japan because he is a resident of Sweden, the points which appellant raised and which are again ignored by respondent, are:

a. That under Section 19 of the California Civil Code, Gunner Agrell was charged as a matter of law with the knowledge of the contents of Exhibits 20, 22 and 25, at the time he received these exhibits including the photographs and the statement "NEW MODERN FACILITY IN OHITO" and that since he had never heard of Purer & Company before receiving Exhibit 20, and that as a result of receiving Exhibit 20 considered a contract that would sell more adding machines in the United States than his brother who had an exclusive contract with him, a prudent person would investigate with whom he was dealing and the source of the manufacture of the adding machine.

b. That when Purer & Company in a subsequent letter (Exhibit 22), asked Gunner Agrell to insert in the contract "or other manufacturer," which he did, he had knowledge that the adding machine would be made by one other than Purer, and again a prudent person would have inquired as to the source of manufacture.

c. That Gunner Agrell made no further inquiries as to the identity of Purer & Company, and the source of his manufacturer, because he was satisfied from the picture on the letters and the statements contained therein where the adding machines would be manufactured and by whom.

d. That in June of 1965, as the result of a conversation between Gunner Agrell and his brother George, they decided to cancel and terminate the agreement of April 1, 1965 despite the fact that at

that time, Gunner Agrell had not as yet determined whether there were any grounds for such cancellation. (Exhibit 40, Exhibit B.)

POINT IV

REGARDING THE QUESTION OF UNFAIR COMPETITION.

1. Respondent argues that appellants have misunderstood the nature of their claim for unfair competition. As respondent states:

> "The gravamen of the claim of unfair competition in this case is that appellants were engaged in holding themselves out as possessing something they did not possess, i.e., that they possessed the good will of Addo, that they were the importers and sellers of an adding machine in some manner authorized or approved by Addo and that they were the holders of a patent license from Addo." (Resp. Br. p. 40.)

Respondent also concedes that appellants were *not* palming off their machine as that of Addo's (Resp. Br. p. 40).

Appellants's position that there was no unfair competition is fully set forth on pp. 59-68 o ftheir Opening Brief. Again without belaboring the point, three errors are apparent from Respondent's Brief in support of their cause for unfair competition:

a. Addo's reputation is predicated on inadmissible records (Exhibits 3, 4 and 48; Resp. Br. pp. 39-40.)

b. The conclusion that Addo's dealers

> "could readily ascertain that appellants infringing machine was so exact a copy of the Addo adding machine that they would be able to use the personnel trained in schools sponsored by Addo Machine Company and would be able to use the special tools and stocks of parts used in the servicing of Addo adding machines" (Resp. Br. p. 40)

is not the same as having these dealers come into court and so testify subject to cross-examination. (Federal Rules of Civil Procedure, Rule 43a.)

c. False advertising to constitute unfair competition also requires evidence that a purchaser relied on the false advertising to purchase defendant's product, believing it to be that of the plaintiff. (*Mosler Safe Co. v. Ely-Norris Safe Co.*, 1927, 273 U.S. 132, 47 S. Ct. 314; *Chamberlain v. Columbia Pictures Corp.*, 9th Cir., 1951, 186 F. 2d 923.) No such purchaser was produced.

In other words, the basic concept of unfair competition, namely that there must be evidence that the public was deceived, is not present in this cause.

2. Appellants respectfully disagree with respondents that "patent infringement in itself is unfair com-

petition" (Resp. Br. p. 39.) It is not. (*Intricate Metal Products, Inc. v. Schneider,* 9th cir., 1963, 324 F. 2d 555, 561-563.)

Pursche v. Atlas Scraper & Engineering Co., 300 F. 2d 467, 483, 9th cir., 1962, cert. den. 371 U.S. 911, 83 S. Ct. 251, cited by respondent on page 38 of its Brief merely held that the use by defendant of plaintiffs's inventions after defendant terminated the license agreement constituted unfair competition sufficient to give the court jurisdiction to hear the cause of action for unfair competition (*Pursche v. Atlas Scraper and Engineering Co., supra,* on p. 483.)

In *Upjohn Co. v. Schwartz,* 2nd cir. 1957, 246 F. 2d 254, cited by respondent on pp. 40-41 of their brief, the plaintiff produced druggists and pharmacists who testified in court as to the exact intentions of defendants, which is not the same as respondents speculating what their dealers had in mind when they read exhibit 52.

POINT V

REGARDING PLAINTIFFS' SECOND CAUSE OF ACTION FOR TRADE MARK INFRINGEMENT.

1. Appellants' contention that it was error on the part of the trial court to permit respondent to withdraw their cause of action for trade mark infringement is not answered by respondent. Respondents' position is that it may start a law suit and withdraw it if discovery reveals that it is without merit.

Appellants disagree. When a plaintiff commences a law suit, it represents to the court that there are good grounds to support the pleading (Fed. Rules Civ. Proc., Rule 11.) It was never intended, particularly in the Federal Courts, that causes of action may be commenced and dropped at whim. Plaintiff's second cause of action was not one arising out of the same set of facts as his other causes of action but entirely separate. Plaintiff sought treble damages for Trade Mark violation (C.T. p. 8) and the trial court on the basis of plaintiffs' affidavits made preliminary findings that defendants did infringe on plaintiffs' trade mark. (C.T. p. 247.) This Court should also note that plaintiffs did not request a dismissal of their second cause of action at the conclusion of discovery proceedings, but only after defendants made their motion to cancel plaintiffs' trade mark (C.T. p. 484; R.T. 12/12/66, p. 7).

2. It is respectfully submitted that there is no grounds to award attorney's fees to a party for resisting a motion for a new trial (Resp. Br. p. 69).

> *Sanford Research Co. v. Eberhard Faber Pen and Pencil Co.,* 7th Cir. 1967, 378 F. 2d 512, 517.

POINT VI

REGARDING THE CAUSE OF ACTION AS A PATENT INFRINGEMENT SUIT.

1. In support of its argument that this was a patent infringement suit, respondents on page 44 makes this curious statement:

> "Appellants final contention is that this was not a suit for patent infringement but merely a suit for recission of a contract. *This ignores the judgment that was rendered.*" (Italics added)

Again without belaboring the point, it is respectfully submitted the issue before the court for trial and determination was not patent infringement but whether Purer obtained the contract of April 1, 1965 by fraud. This was so understood by both appellants and respondents for respondents clearly state on page 21 of their brief:

> "However, because appellants admitted during the course of discovery and pre trial, the validity of the patents and their infringement by appellants, the only issue remaining for trial regarding

the patents was whether appellants had obtained the patent license by such fraudulent means as justified Addo's rescission. *Whether the properly admitted evidence established appellant's fraud is the basic question presented by this appeal.*" (Italics Respondent's)

That a judgment was entered for patent infringement doesn't convert a fraud suit into a patent infringement suit.

Although respondents repeatedly state in their brief that appellants admitted the validity of Addo's patents and that they infringed, (Resp. Br. pp. 6, 21, 44, 45) the fact is that they didn't. Admission No. 4 clearly states (C. T. p. 536):

> "4. The validity of the aforesaid patents is not contested by defendants in this action."

which is not the same as saying that defendants admitted to the validity of plaintiff's patents.

3. While it is true, as respondents state on p. 46 of their brief, that the trial court found that it was an exceptional case entitling plaintiffs to an award of attorney's fees and expenses, respondents fail to state the evidence that makes it exceptional. A statement (Resp. Br. p. 46):

> "The conclusion that appellants were guilty of bad faith and inequitable conduct was fully justified by the evidence before the trial court"

is meaningless unless the respondent is willing to locate this evidence in the record. Appellants repeat, there is no such evidence.

CONCLUSION

That the evidence does not support the findings is fully set forth in Exhibit B of Appellants' Opening Brief and need not be repeated.

For the reasons set forth hereinabove and in the Opening Brief, the judgment should be reversed.

Respectfully submitted,

JOSEPH W. FAIRFIELD,

ETHELYN F. BLACK,

and

ALFRED W. OMANSKY

Attorneys for Appellants.

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

JOSEPH W. FAIRFIELD,
ETHELYN F. BLACK,
ALFRED W. OMANSKY.

Appendix

APPENDIX C

CALIFORNIA EVIDENCE CODE

§ **500. Party who has the burden of proof.** Except as otherwise provided by law, a party has the burden of proof as to each fact the existence or nonexistence of which is essential to the claim for relief or defense that he is asserting. (Stats.1965, c. 299, §500.)

§ **550. Party who has the burden of producing evidence.** (a) The burden of producing evidence as to a particular fact is on the party against whom a finding on that fact would be required in the absence of further evidence.

(b) The burden of producing evidence as to a particular fact is initially on the party with the burden of proof as to that fact. (Stats. 1965, c. 299, §550.)

No. 22038

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

WILLIAM R. HAMBERG and EDWINA HAMBERG,

Petitioners

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent

ON PETITION FOR REVIEW OF THE DECISION OF THE

TAX COURT OF THE UNITED STATES

BRIEF FOR THE RESPONDENT

MITCHELL ROGOVIN,
Assistant Attorney General.

LEE A. JACKSON,
ROBERT N. ANDERSON,
ANN E. BELANGER,
Attorneys,
Department of Justice,
Washington, D. C. 20530.

INDEX

CITATIONS

Cases:

Statutes:

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

No. 22038

WILLIAM R. HAMBERG and EDWINA HAMBERG,

Petitioners

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent

ON PETITION FOR REVIEW OF THE DECISION OF THE

TAX COURT OF THE UNITED STATES

BRIEF FOR THE RESPONDENT

OPINION BELOW

The memorandum findings of fact and opinion of the Tax Court (R. 6-19) are not officially reported.

JURISDICTION

This petition for review (R. 21-24) involves federal income taxes for the taxable year 1959. On April 13, 1965, the Commissioner of Internal Revenue mailed to the taxpayers notice of a deficiency in the amount of $3,694.99. (Doc. No. 2; R. 6.) Within ninety days thereafter, on May 14, 1965, the taxpayers filed a petition with the Tax Court for a redetermination of that deficiency under the provisions of Section 6213 of the Internal Revenue Code of 1954. (Doc. No. 2.)

The decision of the Tax Court was entered March 29, 1967. (R. 2(
This case is brought to this Court by a petition for review file(
June 26, 1967 (R. 21-24), within the three-month period prescrib(
in Section 7483 of the Internal Revenue Code of 1954. Jurisdict
is conferred on this Court by Section 7482 of that Code.

QUESTION PRESENTED

Did the transfer in October, 1959, of property and money by
Florence Murray to the taxpayers in exchange for their agreement
provide her with a home and maintenance for the rest of her life
qualify as a non-taxable gift within the meaning of Section 102(
the Internal Revenue Code of 1954 or did it result in taxable in
of $11,594.02 to the taxpayers in that year under Section 61(a)
the Code as determined by the Tax Court?

STATUTES INVOLVED

Internal Revenue Code of 1954:

SEC. 61. GROSS INCOME DEFINED.

(a) General Definition.--Except as otherwise provided in this subtitle, gross income means all income from whatev source derived, including (but not limited to) the followin items:

(1) Compensation for services, including fees, commissions, and similar items;

*   *   *

(26 U.S.C. 1964 ed., Sec. 61.)

SEC. 102. GIFTS AND INHERITANCES.

(a) General Rule.--Gross income does not include the value of property acquired by gift, bequest, devise, or inheritance.

* * *

(26 U.S.C. 1964 ed., Sec. 102.)

STATEMENT

The facts, as stipulated by the parties (R. 1-5) and as found by ax Court (R. 6-15), may be summarized as follows:

William R. Hamberg and Edwina Hamberg, husband and wife and payers in this case, are residents of Priest River, Idaho. They e their joint federal income tax return for the year 1959 with istrict Director of Internal Revenue at Boise, Idaho. (R. 1, 7.)

For many years there had existed a warm personal friendship wen the taxpayers and John and Florence Murray. Since the death Jhn Murray in 1954, the friendship between taxpayers and Florence ontinued and Florence often relied upon William Hamberg for ad-eand counsel. (R. 7-8, 29-35.)

In 1955, Florence executed a will naming William as executor. 157 she executed a second will, and at William's request named ter person executor. The record does not disclose the nature of estamentary dispositions or the beneficiaries named in her 1955 957 wills. (R. 8, 35-37.)

On March 9, 1959, Florence made a third will, naming leyn Luckey as executrix. (R. 8, 37.) This will provided, in rt as follows: (R. 9-10):

I hereby declare that I am a widow and that my husband, John J. Murray, died about five years ago, and that I have no children.

FIRST: I direct my executrix hereinafter named to arrange for my funeral * * *.

SECOND: I direct my executrix to pay all my just debts and funeral expenses * * *.

THIRD: I direct that from the monies that I have on deposit at the Newport Branch of the National Bank of Commerce of Seattle shall first be paid the amount described in the second provision above, then the further sum of $150.00 shall be used by the executrix for the purpose of instituting proceedings for the probate of this my Last Will and Testament, and the remainder thereof I give and bequeath as follows:

(a) To Nona Murray, my sister-in-law, who resides at 405 E. 7th Avenue, Spokane, Washington, five-eleventh's of said remainder;

(b) to Lee Nacaarato, of Priest River, Idaho, one-eleventh of said remainder;

(c) to June Prill, of Priest River, Idaho, one-eleventh of said remainder;

(d) To Gloria Bauer, of Priest River, Idaho, one-eleventh of said remainder;

(e) To Harold Luckey, of Priest River, Idaho, one-eleventh of said remainder;

(f) To Claudia Luckey, of Priest River, Idaho, one-eleventh of said remainder;

(g) And to Sandra Hamberg, of Priest River, Idaho, one-eleventh of said remainder.

FOURTH: I give and bequeath to Gloria Bauer the dinette set located in my home.

FIFTH: I give and bequeath to Dorothy Peloquin, of Priest River, Idaho, the writing desk located in my home.

SIXTH: I give and bequeath to Marjean Duley, of Priest River, Idaho, the automatic washer located in my home.

> SEVENTH: All the rest, residue and remainder of my estate, real, and personal, of every kind whatsoever, and wheresoever situated, I give, devise and bequeath to Madelyn Luckey of Priest River, Idaho.

ll of the beneficiaries named in the will dated March 9, 1959, h he exception of Nona Murray, were friends or neighbors.[1/] No vi ion was made therein for either William or Edwina Hamberg.).)

n August 31, 1959, Florence entered Bonner County General p::al at Sandpoint, Idaho, at the request of her physician. Sptember 16, 1959, she was released from the hospital and ited to the Sandpoint Manor Rest Home at Sandpoint. She disliked est home and complained about the treatment which she received r. During October, 1959, she communicated with the taxpayers in rseparate letters concerning her desire to leave the rest home. -2, 10.)

In all but the last letter, Florence stated, in effect, that if pyers would secure her release and provide her with a home she ll pay them, and in the first letter dated October 5, 1959, stated .ll pay you well and change my will so that you will get every- g." (R. 10.)

On October 7, 1959, taxpayers visited Dar Cogswell, an attorney andpoint, and related the circumstances concerning Florence, nly, that they contemplated obtaining her medical release and kng care of her, and that she had express an intention to sfer her property in consideration therefor. Taxpayers also

---

lona Murray was Florence's sister-in-law. Sandra Hamberg is payers' daughter. (R. 10.)

checked with Florence's physician concerning her, and he issued a certificate for her release. (R. 11, 40.) On that same day, she was released from the rest home and moved into the taxpayers' home (R. 2, 11.) Prior to going to their home, taxpayers took Florence to see Cogswell. (R. 11, 41.) Both parties informed Cogswell of their intention to execute an agreement providing for the transfer Florence's property to taxpayers in exchange for her future care a maintenance. They requested Cogswell to prepare the necessary leg documents to effectuate this intention. (R. 11, 49.) Both Floren and William wanted a written agreement so that her future care woul be assured. (R. 11, 53.)

Taxpayers and Florence thereupon executed an agreement provid for the transfer of her property in exchange for the taxpayers' promise to care for and maintain her. (R. 11.) The agreement, da October 7, 1959, provided in part as follows (R. 2, 11-12):

> THIS AGREEMENT Made this 7th day of October, 1959, between FLORENCE MURRAY, a widow, party of the first part, and WILLIAM R. HAMBERG and EDWINA HAMBERG, husband and wife, parties of the second part, WITNESSETH:
>
> WHEREAS Party of the first part has arrived at an advanced age in life and desires to live with the parties of the second part in their home where she can be comfortable for the remainder of her life.
>
> NOW THEREFORE The said party of the first part hereby transfers and promises to transfer to the said parties of the second part, all of her property, both real and personal, wherever situated and of whatever kind and character, upon the agreement of the parties of the second part to furnish to her a comfortable home with the said parties of the second part.

This agreement is made as the free and voluntary act of Florence Murray, a widow, party of the first part, and at her suggestion and request.

This agreement imposed upon the taxpayers an obligation to care r and maintain Florence for the duration of her life,2/ and pursuant it, taxpayers received the following consideration (R. 2-3, 12):

Savings account, Idaho First National Bank, Priest River	$ 1,400.00
Savings account, Bank of Commerce, Newport, Washington	3,374.82
Checking account, Bank of Commerce, Newport, Washington	2,535.83
Vendor's interest in Roberson contract	1,222.60
Real property	3,500.00 3/
Furniture and fixtures	500.00
	$12,533.25

Florence conveyed the items of property to taxpayers by proper thods of transfer. The realty was conveyed by warranty deed and e realty subject to the contract of sale to Roberson was conveyed quitclaim deed. Both instruments described the consideration for e transfer as "LOVE, AFFECTION, CARE, SUPPORT AND MAINTENANCE." e Roberson contract of sale was assigned to taxpayers under a parate document entitled "ASSIGNMENT OF CONTRACT," which described e consideration as "my care, support, maintenance, and whatever se may be necessary to make me reasonably comfortable during my ifetime." (R. 2, 3, 12-13.)

There also appears to have been an informal understanding that xpayers would pay Florence's burial expenses. (R. 12, 53.)

In the notice of deficiency, the Commissioner had valued the alty and furniture and fixtures at $7,000. Accordingly, a computation of the deficiency was made for the purpose of the x Court's decision pursuant to Rule 50.

Having effected the transfer of all her property to the taxpayers, Florence then destroyed her will dated March 9, 1959 the presence of the taxpayers. (R. 3, 13.)

When Florence came to the taxpayers' home on October 7, 19 she was 86 years of age. She resided there until her death on October 21, 1959. (R. 3, 13.) Despite her advanced age her d was somewhat unexpected since her physician had stated to taxp on October 7, 1959, that her physical condition was such that s could live an indeterminate number of years. (R. 13, 46.) Dur this brief period taxpayers paid out the following amounts in c for Florence and paying her funeral expenses (R. 3, 13):

Her physician	$ 44.00
Powell (a physician)	10.00
White Cross Drug	5.00
Funeral arrangements	50.00
Moon Funeral Home	767.25
One night dress	2.98
Two weeks' care before death (est.)	60.00
	$939.23

Soon after Florence's death on October 21, 1959, Madelyn L the executrix named in the will which Florence had destroyed, i stituted probate proceedings in the Probate Court of Bonner Cou Idaho, and filed a copy of the destroyed will with the Court. (R. 3-4, 13-14.) Taxpayers employed Cogswell to represent them connection with the probate proceedings and initially they appe in the proceedings to contest the admission of the will to prob Subsequently, however, taxpayers decided not to contest the adm of decedent's will and withdrew from the proceedings. (R. 14,

After a hearing and consideration of the evidence adduced ein, the Probate Court, in September, 1962, entered an order tting the will to probate. There has been no appeal from the r of the Probate Court admitting Florence's will to probate. 4, 14.)

In 1962 or 1963, Madelyn Luckey, the executrix of the estate of ence Murray, deceased, filed a complaint against the taxpayers in District Court of Bonner County to set aside the property trans- and to recover the property transferred to the taxpayers on ber 7, 1959. The litigation in the District Court of Bonner ty is still pending. The case has not been set for trial, and District Court has not determined the validity of the agreement d October 7, 1959. (R. 4-5, 14.)

Taxpayers, on their return for the taxable year 1959, did not ude in their gross income any part of the value of the properties ived from Florence, nor did they deduct any of the expenses paid hem in caring for her or in arranging for her funeral. (R. 14; . Ex. 1-A.)

The Commissioner, in his statutory notice of deficiency, ermined that the fair market value of the property received, less expenses incurred, constituted ordinary income of the taxpayers. 14-15.)

The Tax Court determined as ultimate findings of fact the lowing (R. 15):

That the transfers of property and moneys involved in this case e made pursuant to a valid, binding contract;

That the transfers of property and moneys to the taxpayers we
made by Florence in contemplation of receiving future services on
the taxpayers; and

That the transfers of property and moneys under the agreem t
dated October 7, 1959, resulted in taxable income of $11,594.02 o
the taxpayers in the taxable year 1959.

Upon the basis of these facts and a recomputation agreed to b
the parties, the Tax Court entered its decision ordering a defic
in income tax due from the taxpayers for the year 1959 in the am
of $2,751.98. This appeal followed.

SUMMARY OF ARGUMENT

Florence Murray's primary concern in transferring her propert
to the taxpayers pursuant to their contractual agreement of Octo
1959, was her desire to leave the rest home and provide for her
care and maintenance in the home of the taxpayers. Such transfe
proceeded not from a "detached and disinterested generosity" or
of affection, respect, admiration, charity or like impulses," wh
denote a gift in the statutory sense, but from "the constraining
force of a * * * legal duty" and from "'the incentive of anticip
benefit' of an economic nature." Therefore it was not a gift wi
the meaning of Section 102(a) of the 1954 Code but resulted unde
Section 61(a) of the Code in taxable income to the taxpayers in
year in the amount of $11,594.02.

ARGUMENT

THE TAX COURT WAS CLEARLY CORRECT IN ITS FINDING THAT FLORENCE MURRAY'S TRANSFER OF ALL HER PROPERTY TO THE TAXPAYERS IN OCTOBER, 1959, IN EXCHANGE FOR THEIR AGREEMENT TO PROVIDE HER WITH A HOME AND MAINTENANCE FOR THE REST OF HER LIFE WAS NOT A NON-TAXABLE GIFT WITHIN THE MEANING OF SECTION 102(a) OF THE INTERNAL REVENUE CODE OF 1954 BUT ON THE CONTRARY RESULTED UNDER SECTION 61(a) OF THE CODE IN TAXABLE INCOME TO THE TAXPAYERS IN THAT YEAR IN THE AMOUNT OF $11,594.02

The sole issue for determination in this case is whether the perty and money transferred by Florence Murray to the taxpayers October 9, 1959, gave rise to taxable income under Section 61(a) the Internal Revenue Code of 1954, <u>supra</u>, or whether they contuted non-taxable gifts within the meaning of Section 102(a), <u>ra</u>. The amount in controversy represents the difference between value of the money and property Florence Murray thus transferred the taxpayers and the amount taxpayers expended for her care and port before her death on October 21, 1959. The taxpayers argue t since the value of the property transferred considerably exded the expenses incurred for Florence's support, that the transfer for less than an adequate and full consideration, and therefore excess was non-taxable under Section 102(a) of the Code as a gift. arriving at this conclusion taxpayers rely solely on the concept

of "gift" found in Section 2512(b) of the 1954 Code.4/ However, his reliance is misplaced. The present controversy concerns the tax-payers' liability for income tax on the property and money received from Florence Murray and so involves the application not of the gift tax laws, but of the income tax laws. Moreover, Section 102 of the Code, which excludes gifts from income tax, and Section 2512(b) of the Code, which deems any transfer for less than an adequate and full consideration a gift for the purpose of imposing a gift tax on it, are not construed <u>in pari materia</u>; a transfer which should be classed as a gift under the gift tax law is not necessarily to be treated as a gift income-tax-wise. <u>Farid-Es-Sultaneh</u> v. <u>Commissioner</u>, 160 F. 2d 812, 814-815 (C. A. 2d, 1947). This dichotomy exists because the income tax and gift tax each has its own independent criteria of taxability. <u>Lockard</u> v. <u>Commissioner</u>, 166 F. 2d 409, 412 (C. A. 1st, 1948). In <u>United States</u> v. <u>Davis</u>, 370 U.S. 65 (1962), the Supreme Court addressed itself to this very issue in fn. 6, p. 69:

> Any suggestion that the transaction in question was a gift is completely unrealistic. * * * To intimate that there was a gift to the extent the value of the property exceeded that of the rights released not only invokes the erroneous premise that every exchange not precisely equal involves a gift but merely raises the measurement problem discussed in Part III, <u>infra</u>, p. 71. Cases in which this Court has held transfers

---

4/ Internal Revenue Code of 1954:

SEC. 2512. VALUATION OF GIFTS.

* * *

(b) Where property is transferred for less than an adequate and full consideration in money or money's worth, then the amount by which the value of the property exceeded the value of the consideration shall be deemed a gift, and shall be included in computing the amount of gifts made during the calendar year.
(26 U.S.C. 1964 ed., Sec. 2512.)

of property in exchange for the release of marital rights subject to gift taxes are based not on the premise that such transactions are inherently gifts but on the concept that in the contemplation of the gift tax statute they are to be taxed as gifts. Merrill v. Fahs, 324 U.S. 308 (1945); Commissioner v. Wemyss, 324 U.S. 303 (1945); see Harris v. Commissioner, 340 U.S. 106 (1950). In interpreting the particular income tax provisions here involved, we find ourselves unfettered by the language and considerations ingrained in the gift and estate tax statutes. See Farid-Es-Sultaneh v. Commissioner, 160 F. 2d 812 (C. A. 2d Cir. 1947). (Emphasis supplied.)

The criteria to be used in determining whether a transfer unts to a gift under Section 102(a) of the Code were restated by Supreme Court in Commissioner v. Duberstein, 363 U.S. 278, 285 60):

> * * * if the payment proceeds primarily from "the constraining force of any moral or legal duty," or from "the incentive of anticipated benefit" of an economic nature, * * * it is not a gift.
>
> A gift in the statutory sense, * * *, proceeds from a "detached and disinterested generosity," * * * "out of affection, respect, admiration, charity or like impulses." * * *

The Supreme Court added (pp. 285-286):

> And in this regard, the most critical consideration * * * is the transferor's "intention." * * * "What controls is the intention with which payment, however voluntary, has been made."

thin this framework the issue is essentially one of fact.

The evidence shows that Florence Murray's primary concern at e time of the transfer was to leave the rest home which she exedingly disliked and to make arrangements for her own future care d maintenance. (R. 2, 10, 38-40.) To this end, Florence appealed the taxpayers repeatedly stating in as many as four separate tters that if they would secure her release and provide her with a

home she would pay them well and change her will so that they w ld get everything. (R. 2, 10.) Before any transfer was made, Flo nc first executed a written agreement with the taxpayers providing or the transfer of her property to the taxpayers in exchange for t ir promise to provide for her future care and maintenance. This a ee imposed upon the taxpayers an obligation to care for and mainta Florence for the duration of her life and pursuant to it Floren transferred and promised to transfer to taxpayers all of her pr er (R. 2, 11, 12.) Both Florence and the taxpayer William Hamberg ar this instrument to assure Florence that she would be cared for ri her life. (R. 11, 46-47, 53.) Florence then by proper methods f conveyance transferred all of her money and property to the tax y pursuant to her valid legal obligation. In this respect it is ev the transfers to taxpayers proceeded primarily from the "constra force of a moral or legal duty" and as such then cannot be said gifts. *Bogardus* v. *Commissioner*, 302 U.S. 34, 41 (1937). The d charge of a legal obligation, including payment for services ren or consideration paid pursuant to a contract, is in no sense a g *Robertson* v. *United States*, 343 U.S. 711, 713 (1952). Moreover, fact that Florence wanted a written instrument explicitly defini the contractual relationship between the parties is incompatible with the contention that she was motivated by a "detached and di

5/
nerested generosity" and intended to make a gift to the taxpayers.

In their brief taxpayers repeatedly assert that the transfer nsisted of a part purchase, part gift transaction--the purchase eng equated to the amount they expended for her support, any excess eng intended by her as a gift. (Pet. Br. 22, 24, 26.) However, the ppenstance that the value of the money and property Florence transerred to the taxpayers turned out to be more than the value of what received does not make the excess a gift under Section 102(a) n she never manifested the intention to make a gift in the first tance. 6/

In Commissioner v. Duberstein, supra, the Supreme Court pointed that the question whether a transfer amounts to a "gift" for ome tax purposes is primarily one of fact, and therefore primary ght in this area must be given to the conclusions of the trier of t. The court stated (p. 290):

In this respect it is significant to note that since Florence ray had no immediate family, all the beneficiaries named in her t will dated March 9, 1959, with the exception of a sister-in-law, e friends or neighbors; however, no provision was made therein for her of the taxpayers. Apparently Florence did not contemplate ving anything to the taxpayers. Her later offer to change her will transfer everything to them was done in exchange for their promise care for and maintain her for the rest of her life.

Conceivably Florence could have had the requisite intent to make a t of the excess, if any, if at the time of the transfer she conplated the possibility of an unequal exchange in the taxpayers' vor rather than a "quid pro quo" transaction. However, the evidence s not support such a theory. There is nothing to show that Florence not think she was receiving a full "quid pro quo." On the contrary, r death within two weeks of the transfer was unexpected since her ysician had stated on October 7, 1959, that her physical condition s such that she could live an indeterminate number of years. . 13, 46.) Had she lived for these indeterminate number of years, e transfers to taxpayers could have fallen short of meeting the exnses of their obligation. Moreover, as the Tax Court pointed out ere was an informal understanding that taxpayers would pay Florence's rial expenses. (R. 12, fn. 2.) Actually, taxpayer William Hamberg

(fn. 6 continued on following page)

> One consequence of this is that appellate review of determinations in this field must be quite restricted. * * * Where the trial has been by a judge without a jury, the judge's findings must stand unless "clearly erroneous." * * * The rule itself applies also to factual inferences from undisputed basic facts, * * * as will on many occasions be presented in this area. * * * And Congress has in the most explicit terms attached the identical weight to the findings of the Tax Court.

After consideration of all the factors in this case, the Tax Co[urt] found that the property conveyed to the taxpayers by Florence M[...] was not a "gift" but was transferred pursuant to a valid, bindi[ng] contract in contemplation of receiving future services from the taxpayers. We contend that this conclusion is not only not "cl[early] erroneous," but, in fact, is the only conclusion reasonably jus[tified] by the evidence presented.

CONCLUSION

For the reasons stated above, the decision of the Tax Cour[t is] correct and should be affirmed.

Respectfully submitted,

MITCHELL ROGOVIN,
Assistant Attorney General

LEE A. JACKSON,
ROBERT N. ANDERSON,
ANN E. BELANGER,
Attorneys,
Department of Justice,
Washington, D. C. 20530.

January, 1968.

6/ (fn. 6 continued from previous page)
testified that Florence was worried that her money might give o[ut and] she would not have anything. (R. 35.) Accordingly, the eviden[ce in]dicates not only that Florence was not aware that the value of [the la]nd she conveyed to taxpayers might be in excess of the value of th[eir] promise to provide for her, but, in fact, she was worried that [it] might not be enough to support her for the remainder of her lif[e].

CERTIFICATE

I certify that, in connection with the preparation of this brief, ve examined Rules 18, 19, and 39 of the United States Court of als for the Ninth Circuit, and that, in my opinion, the foregoing f is in full compliance with those rules.

d: _____ day of January, 1968.

____
Attorney

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

LAWRENCE E. WILSON, Warden, Respondent-Appellant, vs. WILLIE WADE, JR., Petitioner-Appellee.	No. 22040

APPELLANT'S OPENING BRIEF

THOMAS C. LYNCH, Attorney General
of the State of California

DERALD E. GRANBERG
Deputy Attorney General

KARL S. MAYER
Deputy Attorney General

6000 State Building
San Francisco, California 94102
Telephone: 557-1851

Attorneys for Appellant

TOPICAL INDEX

TABLE OF CASES

TEXTS, STATUTES & AUTHORITIES

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

LAWRENCE E. WILSON, Warden, Respondent-Appellant, vs. WILLIE WADE, JR., Petitioner-Appellee.	)	No. 22040

APPELLANT'S OPENING BRIEF

JURISDICTION

The jurisdiction of the United States District Court to issue the writ of habeas corpus was conferred by Title 28, United States Code section 2241. The jurisdiction of this Court is conferred by Title 28, United States Code section 2253, which makes a final order in a habeas corpus proceeding reviewable in the Court of Appeals when, as here, a certificate of probable cause has issued.

STATEMENT OF THE CASE

This is an appeal from an order of the United States District Court for the Northern District of California, granting appellee's petition for a writ of habeas corpus and ordering his discharge from custody. The order of release is without prejudice to the state to apply to have set it aside in the event a free transcript of trial is provided to appellee.

Proceedings in the State Courts.

On November 1, 1960, appellee, Willie Wade, Jr., petitioner below, and his codefendant, were sentenced in the Superior Court for the County of Los Angeles to life imprisonment on their conviction of violation of California Penal Code section 187 (first degree murder) (CT 38).

On August 17, 1961, the California Court of Appeal, Second Appellate District, in case No. 7946 affirmed appellee's conviction of violation of Penal Code section 187.

The exhibits attached to the petition for habeas corpus indicate that appellee has made several requests for a free transcript of the proceedings at trial which resulted in his conviction of murder. Thus, in April 1966, appellee requested his appellate counsel to send

the transcript. His counsel replied that he did not have the transcript because the one used to prepare and prosecute the appeal had been borrowed from the California Attorney General and returned after the appeal (CT 21).[1/] In May 1966, the Court of Appeal advised appellee that his request for the court to furnish him a free transcript could not be complied with because the court had only the original record and no method of duplication (CT 24). In response to another request, the California Supreme Court advised appellee that requests for the transcript should be directed to the Court of Appeal which handled his appeal (CT 28). Appellee's subsequent request of the Court of Appeal was declined with the advice that the court would make available its copy for copying at appellee's expense (CT 29). In October 1966, the trial court advised appellee that he could obtain his transcript at his expense from the court reporters and then listed the reporters at his trial (CT 30).

---

1. California law provides that multiple appellants in a non-death case share a single copy of the trial record. Apparently appellee's codefendant has retained this copy. To facilitate the appeal the California Attorney General accommodated appellee's appellate counsel by loaning him another copy of the trial record for use on appeal.

This procedure is discussed more fully in the argument, p. 9, *infra*.

[illegible]

Proceedings in the Federal Court.

On February 16, 1967, appellee filed, *in forma pauperis* with permission of the court (CT 1), a petition for a writ of habeas corpus (CT 2-30). On the same date the District Court issued an order to show cause (CT 31). Appellant, respondent below, filed a return to the order to show cause on February 24, 1967 (CT 32-38). On March 22, 1967, appellee, *in propria persona*, filed a traverse to the return to the order to show cause (CT 40-45, 46-51). On June 5, 1967, the District Court granted the petition for a writ of habeas corpus (CT 52-54). The court ordered appellee discharged from custody but stayed execution of the order for a period of ten days and also specified that the order was without prejudice to the state to apply to have it set aside in the event the transcripts are provided to appellee.

On June 15, 1967, the District Court stayed execution of the judgment pending the timely filing of a notice of appeal by respondent and pending the determination of such appeal (CT 57), issued a certificate of probable cause (CT 62), and appellant filed a notice of appeal (CT 55).

[illegible]

SUMMARY OF APPELLANT'S ARGUMENT

This appeal is taken upon the grounds set forth in the Statement of Points filed in this Court on July 28, 1967. It is appellant's contention that one in state custody has no federal right to be provided at state expense a transcript of his trial to be used for the purpose of discovering a flaw which may be grounds for habeas corpus or for commencing any other court action which collaterally attacks the validity of the presumptively valid judgment under which he is in custody.

ARGUMENT

THE DISTRICT COURT ERRONEOUSLY HELD THAT A STATE PRISONER IS ENTITLED TO A TRANSCRIPT OF HIS TRIAL AT STATE EXPENSE FOR THE PURPOSE OF PREPARING A PETITION FOR A WRIT OF HABEAS CORPUS.

The District Court's order presents a narrow but nevertheless extremely significant issue. This issue is framed by the following circumstances: (1) appellee's conviction was affirmed on appeal by the California Court of Appeal; (2) appellee was represented by counsel on that appeal and his appellate counsel had access to and in fact used a copy of the complete record of the proceedings at trial; (3) appellee's petition to the District

Court contained no allegation of any error committed at his trial, nor any allegation of illegality in his sentencing, nor any allegation that error was committed on his appeal; (4) appellee has never instituted any proceeding in any court which collaterally attacks the validity of his conviction; (5) appellee has neither demonstrated nor even alleged a need for the transcript other than his desire to go on a fishing expedition in search of a flaw in his trial record.

It is important to state what is not at issue in this case. Appellee's desire for the transcript is not related to any pending action in any court. An indigent's right to a free transcript in connection with a direct attack on his conviction by way of appeal is not here at issue as it was in Griffin v. Illinois, 351 U.S. 12 (1956). Similarly, an indigent's right to a free transcript to be used on appeal from a denial of relief by way of collateral attack on a judgment of conviction is not here involved as it was in Long v. District Court, 385 U.S. 192 (1966) (appeal from unsuccessful post-convictio relief proceedings), and in Lane v. Brown, 372 U.S. 477 (1963) (appeal from denial of petition for writ of coram nobis).

The District Court principally relied on the above cases and determined that their logic compelled a finding

that an indigent prisoner is entitled to a free transcript to prepare a petition for a writ of habeas corpus in the same manner as he is entitled to a transcript to prepare an appeal. Of course, the need of a trial transcript in connection with a collateral attack is quite different from the need of it in connection with an appeal or direct attack. As the court said in United States v. Shoaf, 341 F.2d 832 (4th Cir. 1964):

> "The usual grounds for successful collateral attacks upon convictions arise out of occurrences outside of the courtroom or of events in the courtroom of which the defendant was aware and can recall without the need of having his memory refreshed by reading a transcript. He may well have a need of a transcript or a partial transcript to support some ground of collateral attack, but rarely, if ever, would the defendant, himself, need a transcript of the trial to become aware of the events or occurrences which constitute a ground for collateral attack." 341 F.2d at 835 (emphasis added).

In its order, the District Court stated:

> "Respondent and the State of California have taken the position that petitioner has

[illegible]

[illegible]

> shown no good cause for his request [for a free transcript]. There are two answers to this. First, he alleges that there were errors in his conviction, and second, it may not be possible to pinpoint such alleged errors in the absence of a transcript."
> (CT 54).

With all due respect to the District Court, appellant respectfully urges that appellee's petition alleged no error in his conviction. Appellee contended that his incarceration is unlawful on the sole ground that the State of California has denied him due process and equal protection of the law "by the illegal retainment of my trial records." (CT 4). The instant petition is not similar to that before the court in United States v. Glass, 317 F.2d 200 (4th Cir. 1963), where, although Glass had merely asked the federal court to provide him a free trial transcript, his specific and detailed allegations of fact stated a *prima facie* case for relief under Title 28, United States Code section 2255, and for that reason justified treating his moving papers as such a motion rather than one merely for a free transcript. Appellee's petition contains no such allegations.

We have then a state prisoner who has commenced no proceeding to collaterally attack his judgment of

[illegible]

conviction and who has made no allegation of any sort that that conviction is in any way invalid. The question before this Court is whether such a person is, as a matter of federal constitutional law, entitled to a free transcript of his trial on demand and at state expense.

There is no issue in this appeal under the equal protection clause of the Fourteenth Amendment because California law has not been discriminatorily applied to appellee. It is true, as alleged in appellee's petition to the District Court, that California law provides that one who is convicted of a crime is entitled to a free transcript of his trial proceedings for purposes of his appeal. California Rules of Court, Rule 35(c); People v. Smith, 34 Cal.2d 449 (1949). However, this does not necessarily mean that every appellant in a California criminal case is entitled, as a matter of California law, to a free trial transcript for his individual and permanent retention. Thus, where there are two or more appealing defendants in a case where a judgment of death has not been rendered against any of the defendants one copy is prepared for them to share for purposes of their appeal. California Rules of Court, Rule 35(c) and 10(c). Upon termination of such an appeal involving multiple appellants, there is no provision in California law regarding which appellant is entitled to permanent retention of

the single copy of the trial record. This is relevant to the instant case where appellee was convicted together with a codefendant and the codefendant is the one who received and retained appellants' copy (CT 12, 21). Nevertheless, as was noted above, Mr. Wade's appellate counsel had access to and in fact used a copy of the complete record of the trial proceedings.

It is clear that appellee is not entitled to a free transcript of his trial proceedings to be used for no other purpose than to go on a fishing expedition in search of a flaw which may constitute grounds for collateral attack on his judgment of conviction. This point is implicit in the opinions of the United States Supreme Court and has been expressly stated by a majority of the Courts of Appeals. Thus, in Griffin v. Illinois, supra, the court said: "We do not hold, however, that Illinois must purchase a stenographer's transcript in every case where a defendant cannot buy it." 351 U.S. at 20. In Eskridge v. Washington State Board, 357 U.S. 214 (1958), a case similar to the Griffin case, the court said: "We do not hold that a state must furnish a transcript in every case involving an indigent defendant." 357 U.S. at 216. In Burns v. Ohio, 360 U.S. 252 (1959), the Supreme Court's position is made more clear. There, the court cited with approval an Illinois Supreme

[illegible]

Court rule, promulgated as a result of Griffin, which provided for an indigent to receive a free transcript where "necessary to present fully the errors recited in the petition. . . ." 360 U.S. at 258 n.11.

The Courts of Appeals have been specific in their holdings with regard to this issue. In Ketcherside v. United States, 317 F.2d 807 (6th Cir. 1963), the court reviewed the District Court's denial of a federal prisoner's request for a free transcript of his trial to be used for the purpose of preparing his briefs and arguments on a motion to vacate his sentence. In affirming the District Court's decision, the Court of Appeals held that the law does not entitle "a federal prisoner to obtain such a transcript at government expense for the purpose of preparing a case pursuant to 28 U.S.C.A. § 2255. [Citations]." 317 F.2d at 808 (emphasis by the court). Similarly, in Culbert v. United States, 325 F.2d 920 (8th Cir. 1964), the court affirmed the District Court's denial of a federal prisoner's request for a free transcript of his trial where the prisoner had not taken an appeal from his conviction, had commenced no other proceedings except the one then before the court, and made only extremely vague allegations that his conviction was invalid. In affirming the denial of the request for a free transcript the Court of Appeals for the Eighth Circuit said:

"We have carefully examined all the files, papers and records from the inception of the criminal charges, and we are satisfied that appellant is on a fishing expedition -- he desires a transcript at Government expense with some vague hope of discovering a flaw in the proceedings which would entitle him to make collateral attack upon the judgment. There is no merit in this claim and the order appealed from is affirmed." 325 F.2d at 922.

In Harless v. United States, 329 F.2d 397 (5th Cir. 1954), the court dismissed as frivolous a federal prisoner's appeal from the District Court's denial of his request for records. Harless had made extremely vague allegations with regard to error committed at trial and requested the District Court to order that he be granted free records of the trial proceedings in order to "ascertain the correctness of his beliefs." The Court of Appeals for the Fifth Circuit quoted at length from the opinion in Ketcherside v. United States, supra, and then held that the right to proceed in forma pauperis does not include the right to free records for use in proposed or prospective litigation and that the request for free records was also insufficient for its failure to state with any

[illegible]

[illegible]

particularity or color of merit why the judgment of conviction was allegedly illegal. Harless v. United States, supra, at 398-399. In United States v. Glass, discussed above, it is significant to note that although the Court of Appeals for the Fourth Circuit felt Glass had stated a prima facie case for relief under Title 28, United States Code section 2255, he nevertheless had failed to justify an order providing him a free transcript because his allegations did not show a need for the same. United States v. Glass, supra, at 202.

In both the Glass and the Shoaf cases, the Fourth Circuit Court of Appeals considered the instant problem expressly in the light of the Griffin case and the subsequent Supreme Court cases developing the principles of Griffin, including Lane v. Brown, supra, Smith v. Bennett, 365 U.S. 708 (1961), and Burns v. Ohio, supra. United States v. Glass, supra, at 202-203 n.5; United States v. Shoaf, supra, at 834 n.2.

Subsequently, in a case involving the request by a state prisoner for a free trial transcript this Court stated:

> "Nor is the court required to order a copy of appellant's trial transcript merely to enable appellant to 'comb the record in the hope of discovering some flaw.'" McGarry v. Fogliani,

370 F.2d 42, 44 n.7 (9th Cir. 1966).
This Court there cited with approval the opinion of the Fourth Circuit Court of Appeals in United States v. Glass, supra.

In light of the above cases, it is apparent that both the overwhelming weight and the logic of the authorities who have considered the problem compel a result contrary to that reached by the District Court in the instant case.

CONCLUSION

The practical effect of the District Court's order is to require the state to furnish, on demand, each state prisoner a full record of the proceedings which led to his being in state custody so that he may comb such records for the purpose of discovering some flaw which may furnish grounds for collateral attack on a presumptively valid judgment of conviction. This would be so regardless of whether the prisoner has alleged or demonstrated any specific need for such records and regardless of whether he has commenced or attempted to commence any court action collaterally attacking his conviction.

Contrary to the District Court's statement in its order in the instant case the logic of the holdings of the United States Supreme Court and the specific holdings of the various Courts of Appeals noted above are affirmative

authority for a result opposite from that reached by the District Court.

For the aforementioned reasons the District Court's order should be reversed.

DATED: September 5, 1967

THOMAS C. LYNCH, Attorney General
of the State of California

DERALD E. GRANBERG
Deputy Attorney General

Karl S. Mayer

KARL S. MAYER
Deputy Attorney General

Attorneys for Appellant.

:O
:R SF
;7-232

CERTIFICATE OF COUNSEL

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit and that in my opinion this brief is in full compliance with these rules.

DATED: San Francisco, California

September 5, 1967

Karl S. Mayer

KARL S. MAYER
Deputy Attorney General
of the State of California

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

LAWRENCE E. WILSON, Warden, Respondent-Appellant, vs. WILLIE WADE, JR., Petitioner-Appellee.	No. 22040

APPELLANT'S SUPPLEMENTAL MEMORANDUM

THOMAS C. LYNCH, Attorney General
of the State of California

DERALD E. GRANBERG
Deputy Attorney General

KARL S. MAYER
Deputy Attorney General

6000 State Building
San Francisco, California 94102
Telephone: 557-1851

Attorneys for Appellant

TABLE OF CASES

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

LAWRENCE E. WILSON, Warden, Respondent-Appellant, vs. WILLIE WADE, JR., Petitioner-Appellee.	No. 22040

APPELLANT'S SUPPLEMENTAL MEMORANDUM

On October 23, 1967, the United States Supreme Court decided Roberts v. LaVallee, No. 193 Misc., 36 U.S. L.Week 3171. Although the case is readily distinguishable from the instant case, appellant feels it should be called to this Court's attention because it relates to an indigent state prisoner's constitutional right to a free transcript and because it discusses several cases cited by both parties in the instant appeal.

The facts of Roberts are stated in the Supreme Court's per curiam opinion. When Roberts' case was called for trial in a New York state court on charges of robbery, larceny and assault, he asked to be furnished

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

a free transcript of a prior preliminary hearing at which the major state witnesses had testified. The trial court declined to furnish this transcript without cost.

Citing _Draper_ v. _Washington_, 372 U.S. 487 (1963); _Griffin_ v. _Illinois_, 351 U.S. 12 (1956); _Long_ v. _District Court of Iowa_, 385 U.S. 192 (1966); and _Lane_ v. _Brown_, 372 U.S. 477 (1963), the Supreme Court found this procedure a denial of equal protection of the laws.

The _Roberts_ case does not support the order of the district court in the instant case for the same reasons that _Griffin_, _Long_, and _Lane_ are inapposite. _Draper_ and _Griffin_ each involved an indigent state prisoner's right to a free record on direct appeal from a judgment of conviction. Both _Long_ and _Lane_ involved an indigent's right to a free record on appeal from the denial of collateral relief. Each of the above four cases involved direct appeals, and in each case the record requested was of the proceedings from which the appeal was taken. Thus, in _Long_ and _Lane_ the free transcripts involved only the transcripts of proceedings on collateral attack, and not the original proceedings leading to the judgment of conviction which was collaterally attacked. Thus, _Draper_, _Griffin_, _Long_, and _Lane_, all stand for the proposition

that on appeal an indigent state prisoner is entitled to a free transcript of the proceedings from which the appeal is taken.

The Roberts case goes back several steps from the above cases and articulates an indigent's right to a transcript of his preliminary hearing to be used to prepare for trial. Roberts' interest in the transcript of a prior preliminary hearing is closely related to pretrial discovery of prior statements made by persons who may be witnesses for the prosecution at trial. The policy considerations relevant at this crucial stage of the proceedings are vastly different from those involved in the instant case. Thus, at the time he requested a transcript of his preliminary examination, Roberts stood as one who is presumptively innocent and who would use the requested record to defend himself against the criminal charges. Appellee's status is the direct opposite. Appellee seeks a free transcript of his trial proceedings for no other announced purpose than to fish for grounds upon which he may collaterally attack a presumptively valid judgment of conviction. The Roberts case does no more than to add a single link to the chain of proceedings on direct attack of criminal charges wherein an indigent must be provided, without cost, access to records which

may bear on the merits of the case. As is true of _Draper_, _Long_, _Lane_ and _Griffin_, the _Roberts_ case does not constitute authority for the proposition that every indigent state prisoner is entitled, as a matter of federal constitutional law, to a free transcript to be used for no other purpose than to engage in a fishing expedition in search of grounds to collaterally attack a presumptively valid judgment of conviction.

DATED: December 6, 1967

THOMAS C. LYNCH, Attorney General
of the State of California

DERALD E. GRANBERG
Deputy Attorney General

Karl S Mayer
KARL S. MAYER
Deputy Attorney General

Attorneys for Appellant

EO
CR SF
67-232

22041

IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

RNEST H. WEIGMAN and EULA D. WEIGMAN, husband nd wife,	)
Appellants,	)
vs.	)
OMMISSIONER OF INTERNAL EVENUE,	)
Appellee.	)

OPENING BRIEF OF APPELLANTS

ERNEST H. WEIGMAN and
BEULA D. WEIGMAN

LESHER, SCRUGGS, RUCKER,
KIMBLE and LINDAMOOD
3773 East Broadway
Tucson, Arizona 85716

Attorneys for Appellants
Ernest H. Weigman and
Beula D. Weigman

RECEIVED

DEC 1 8 1967

WM. B. LUCK, CLERK

FILED

DEC 1 8 1967

WM. B. LUCK, CLERK

TOPICAL INDEX

TABLE OF CASES

IN THE

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 22041

ERNEST H. WEIGMAN and
BEULA D. WEIGMAN, husband
and wife,

Appellants,

vs.

COMMISSIONER OF INTERNAL
REVENUE,

Appellee.

OPENING BRIEF OF APPELLANTS WEIGMAN

STATEMENT OF PLEADINGS AND FACTS TO CONFER JURISDICTION

This is an appeal from a decision entered by the Tax Court of the United States on March 17, 1967, 47 T. C. No. 58.

Appellants had petitioned the Tax Court to review an assessment made by the Director of Internal Revenue.

The Petition appears on page 2 of Transcript of the Record.

The issues involved relate to the application of Sections 165 and 166 of the Internal Revenue Code of the United States as they refer to "trade or business" of a taxpayer.

The Appellants have taken steps required by the Federal Rules of Civil Procedure and the Rules of this Court, and therefore, this Court has jurisdiction to review the Decision of the Tax Court and all other matters in issue.

STATEMENT OF THE CASE

The Appellants, Ernest H. Weigman and Beula D. Weigman, husband and wife, are residents of Pima County, Tucson, Arizona. They were a retired couple for several years preceding 1960. In the summer of 1960 Mr. Weigman made an

investment of $5,000 by the purchase of stock of the Birdcage Restaurant and Cocktail Lounge in Scottsdale, Arizona. At that time, there were two other shareholders, Jerry O'Dell and William Bird.

The corporation had begun business in 1960 with Mr. Bird acting as its President and General Manager. In the fall of 1960 the Appellants were called upon to advance or provide additional monies to the corporation. In the late months of 1960 the Appellants became aware of the fact that Mr. Bird was not managing the corporation in a business like manner and in February and March of 1961 the Appellants performed the following acts:

1. Purchased the interest of William Bird in the corporation and paid him to terminate his management contract.

(Trial Proceedings, p. 14, line 9) [1]

2. Agreed to pay all of the outstanding obligations of the corporation. (Trial Proceedings, p. 18, line 6)

3. Entered into a lease dated March 1, 1961, whereby they personally leased the premises which was occupied by the corporation. (Trial Proceedings, p. 15, line 1)

4. Employed a manager and took active operation and control of the Restaurant business. (Trial Proceedings, p. 15, line 23)

5. Devoted a substantial portion of their time, particularly the time of Mr. Weigman, to the operation and control of said Restaurant. (Trial Proceedings, p. 19, line 9)

6. Continued to lose money and to make payments of the losses. (Trial

---

(1) "Trial Proceedings" refers to the reporter's record of the trial before the Tax Court.

Proceedings, p. 25, lines 15 to 25)

7. Finally the business came to an end. (Transcript of Proceedings, p. 26, line 8). The evidence indicates that $118,825 was lost after the date of the new lease which was issued on March 1, 1961 to the Weigmans and between January, 1962. (Trial Proceedings, p. 25, lines 15 to 25)

(At all times herein the Weigmans provided their own funds for operation of the business. They continued to place their funds in the corporate bank account and they used the corporate name. (Trial Proceedings, p. 18, lines 10 and 21--p. 27, lines 6 to 11). They had no elections of directors nor of officers). (Trial Proceedings, p. 17, line 12)

The Appellants filed an application with the Internal Revenue Service for a refund for the years 1958, 1959 and 1960,

claiming refunds arising from carry-back deductions for said years. A refund was made and thereafter the Commissioner assessed tax deficiencies for the years 1958, 1959 and 1960, and from these deficiencies the Appellants filed the Petition to the Tax Court (Transcript of Record, p. 2) a Stipulation of Facts was filed with the Tax Court (Transcript of Record, p. 9) evidence was presented thereon by the taxpayer (Trial Proceedings) and a decision was entered by the Tax Court (Transcript of Record, p. 12) wherein a majority of the judges of the Tax Court sustained the Internal Revenue Service but the trial judge, the only judge present at the trial on the issues, dissented.

The refund by the Internal Revenue Service was based on a carry-back loss of $154,825. Part of this occurred when the Weigmans were in an investor

status. Thus, $36,000 is a proper subject of a deficiency assessment. The sum of $118,825 is a business bad debt loss.

The issues presented for appeal are the application of Sections 165 and 166 Internal Revenue Code to the factual situation. The Appellants contend that the loss which they sustained was a business loss and that, though they began as investors in a Restaurant business, they soon became engaged in the trade or business of operating a restaurant and lost their status of investors when they became involved in said trade or business.

SPECIFICATION OF ERRORS

The Tax Court erred in the following particulars:

1. The Tax Court erred in that it

found the Appellants were not engaged in the trade or business of operating a restaurant when the evidence lawfully proved that they were engaged in the trade or business of operating a restaurant.

2. The Tax Court erred when it failed to apply correctly the provisions of Sections 165 and 166 Internal Revenue Code, and to rule that the losses of the Appellants were those incurred in their trade or business.

3. The Tax Court erred when the majority thereof failed to follow the dissenting opinion of the trial judge who was present, heard the evidence and reached a valid and lawful conclusion in his dissenting opinion.

SUMMARY OF ARGUMENT

The Appellants contend that they were engaged in the trade or business

of operating a restaurant. Their position has been that they came into the corporation as shareholders (investors), that the purpose of the corporation ceased in substance, that they soon became the active operators of the business on a personal basis. At that time, they argue, they became involved in the trade or business of operating a restaurant.

The losses ($118,825) which they claim as business losses were those which arose after the Appellants took control of the restaurant as their trade or business. The losses ($36,000) which they sustained as shareholders in the corporation are not claimed in this appeal, nor were they claimed before the Tax Court.

The Appellants further argue that the conclusions of the trial judge of

the Tax Court, who heard the evidence and who dissented from those judges of the Tax Court who did not hear the evidence, should be given great weight by the Court of Appeals.

ARGUMENT AS TO SPECIFICATION OF ERRORS NO. 1 AND NO. 2

The report of Trial Proceedings, pages 14 through 19 in particular, further indicates the intent and acts of the Appellants who changed their status from investor to operator (business). At the beginning of the events, in the summer of 1960, the Appellants assumed no administrative control of the business, but after they purchased the entire business, they devoted all of their time to the business, they assumed complete control thereof and subjected themselves to complete economic liability for the operation

f the business. They entered into a
ew lease on a personal basis and they
aid all past debts of the business and
ll operating debts of the business.

Sections 165 and 166 of the Inter-
al Revenue Code permit one who is
ngaged "in a trade or business" to
educt losses from income, whereas,
fter loss occurs by reason of invest-
ent it may only be deducted in the
anner of short term capital gains.

The issue presented is whether or
ot the Weigmans were engagaged in the
rade or business of operating a res-
aurant or whether they were investors
n a failing corporation.

The Sections of the Internal
evenue Code which are involved are
65 and 166.

"SEC. 165. LOSSES.

(a) GENERAL RULE.--There

shall be allowed as a deduction any loss sustained during the taxable year and not compensated for by insurance or otherwise.

(c) LIMITATION OF LOSSES OF INDIVIDUALS.--In the case of an individual, the deduction under subsection (a) shall be limited to--

(1) losses incurred in a trade or business; ..."

"SEC. 166. BAD DEBTS.

(2) NONBUSINESS DEBT DEFINED.--For purposes of paragraph (1), the term 'nonbusiness debt' means a debt other than--

(A) A debt created or acquired in connection with [a trade or business of the taxpayer]."

The position of a taxpayer who seeks to secure business bad debt treatment for monies advanced to a corporation has been the subject of many cases. The courts have held that loans or advances to a corporation for the purpose of maintaining the corporate structure and continuing with the same are not

oans in the "trade or business" of the axpayer, but they are loans made by nvestors and that the investor may ot receive a business bad debt deduction. ypical of these cases is Omaha National ank v. Commission, 183 F2d 899, wherein he taxpayer, an attorney, intentionally ontinued corporate activities during he time monies were advanced to the orporation.

The taxpayers (Weigman) herein ere not seeking to continue the cor- orate structure but were intentionally gnoring the existence of the corpo- ation and were considering their ctivities to be personal. The record ndicates that through ignorance the axpayers used some of the structure of he corporation as matters of con- venience and that they created evidence of "loans" without advice from any

nowledgeable persons. (Trial Pro-
eedings, pp. 31-35.)

Under the facts as adduced at the ime of trial the taxpayers argue that hey are entitled to business bad debt reatment and that they should be peritted to treat their loss of $118,825 s a debt incurred in their trade or usiness.

Whether money has been expended in taxpayer's trade or business has been eclared to be an issue of fact.

> "Question whether a debt is one the loss from the worthlessness of which is incurred in taxpayer's trade or business is a question of fact in each particular case."
> Pokress v. Com. of Int. Rev., 234 F2d 146.

The most recent pronouncement on he issue of "trade or business" of a axpayer is Whipple v. Com. of Int. Rev., 373 U.S. 193. Therein the Supreme Court

of the United States indicated,

> "Devoting one's time and energies to the affairs of a corporation is not of itself, and without more, a trade or business of the person so engaged."

This concept does not change the expression in Burnet v. Clark, 53 S.Ct. 207, wherein it was stated:

> "The respondent was employed as an officer of the corporation; the business which he conducted for it was not his own. There were other stockholders. And in no sense can the corporation be regarded as his alter ego, or agent ..."

It is to be observed that in both of these landmark cases the taxpayer was intentionally continuing with the corporate structure.

There is a line of cases which has permitted, or at least recognized, the existence of business bad debt treatment to a taxpayer who is operating independently of the corporation. This

ine of cases has permitted business bad ebt treatment to taxpayers who retained corporate structure in form but who perated the business of the corporation s their independent trade or business. rimarily these cases are those in which taxpayer has continued the business of he corporation but has assumed all perating debts of the corporation (and opefully has agreed to accept the rofits of the corporation.) This line f cases includes Bryce v. Keith, 257 'ed 133:

> Losses on the value of corporate stock were accepted as 'incurred in trade.' The Court stated, 'The transactions by which the decedent became the owner of the stock were carried on over a considerable period, were complicated in character, involved a very large sum of money, and must have required much of her time and attention, and I am of the opinion that they were of the character contemplated by Congress as "incurred in trade".'"

"The agreement between Wiggin and the lumber company made all its operating losses his losses. During these four years, Wiggin was carrying on this lumber business almost exactly as though it had been his own personal business. Its possible profits and its actual losses were his, individually. Under the contracts he managed it, without interference or control by the board of directors. The corporation was merely entitled to an accounting of the operating results of his management; otherwise its corporate business functions were practically suspended. Under these contracts, this lumber business was, in a very real sense, Wiggin's trade and business."
Wiggin v. Com. of Int. Rev., 46 F2d 743.

But where the loss was to a corporation, with no probability of a loss to a taxpayer who had made guarantees, the court refused to ignore the corporate existence. It appears that the evidence in the particular cases precluded any probability of loss to the taxpayer, and upon this fact the

Crcuit Court refused to find a business loss. Hickey v. Chahoon, 153 F2d 17.

Maytag v. U.S., 289 F2d 647, states:

> "The advances took the form of loans, negotiable notes being issued for each advance of money. They were recorded on the corporation's books and on the plaintiff's personal books as loans. The debts to the plaintiff were never formally subordinated to those of other creditors, though in fact the plaintiff did not insist on a pro rata distribution with other creditors, because he was so closely identified with the corporation that he did not think it would be honorable to take a part of the small amount available to the creditors."

nd upon such language the Court ruled hat the plaintiff was entitled to ecover upon a claim for a refund. A usiness bad debt had been established.

It is the position of the taxpayers hat they have ignored the existence f the corporation. Their independent

ourse of conduct which made the peration of the restaurant their trade or business" is sustained by vidence relating to the personal ease for the property involved, the ayment of all business debts and perating debts from their personal unds, the complete lack of corporate in tes, meetings or elections and of neir continued control of the operaion of the restaurant.

Confirming the validity of such a osition is Van Clief v. Helvering, 35 F2d 254, wherein it is stated:

> "There is no reason to apply a different rule because the sole stockholder is an individual. The fact that Van Clief made the advances to keep the corporation afloat rather than to liquidate it, has no tendency to show that a voluntary addition to capital rather than a loan was intended."

The use of the corporate bank

ccount (which the Weigmans allege was ontinued for convenience), and the iling of tax returns for 1961 cannot e ignored. The evidence indicates Stipulation of Facts, Transcript of ecord p. 9, sub-page 5) that the tax-ayers intended to receive tax benefits rom their losses and that these benefits ould be received in personal manner. 'he taxpayers intended that the corpo-ation was their alter ego. If this s so, then under the rules discussed in urnet v. Clark, supra, the taxpayers ould be entitled to tax treatment esulting from their business bad debt ncurred in their trade or business.

The foregoing cases permit a axpayer to achieve a business bad ebt in a situation wherein the tax-ayer (1) has ignored the substance of orporate existance and has assumed

ersonal liability for its debts and s operation, or (2) has devoted all is time to the affairs of the corporation. The situation at bar certainly ollows the foregoing concepts. Mr. eigman assumed personal financial iability for the operation of the usiness (new lease, payment of past ebts and of operating debts) and evoted all his time to the operation f the business. Under the law and the acts the Weigmans are entitled to be lassified as having a trade or business ebt.

ARGUMENT AS TO SPECIFICATION OF ERROR NO. 3

Traditionally the appellate courts eek to find support for the actions nd conclusions of a trial judge.

The presence of the trial judge t the actual proceedings is recog-

[illegible]

ized as most important for he may
oserve the witnesses and reach con-
lusions on a first hand knowledge
asis.

Ironically in this trial the
udge who heard the witness and who
eviewed the exhibits as presented by
he witness reached a conclusion opposite
rom the judges who read the record.

Such a situation should not be
gnored by the Court of Appeals. It
s true that this fact alone is
ertainly no basis for a reversal of
he Tax Court, but on the other hand,
t is a fact to be given great weight
y the Appellate Court.

Respectfully submitted,

E. F. Rucker

E. F. Rucker
Attorney for Ernest H.
Weigman, et ux,
3773 East Broadway
Tucson, Arizona 85716

APPENDIX

IPULATION OF FACTS, admitted
s to Petitioners and
espondent

anscript of Proceedings Page 9
efore The Tax Court of
he United States
hoenix, Arizona
ebruary 1, 1966
ocket No. 3559-64

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

E. F. Rucker

No. 22041

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

ERNEST H. WEIGMAN and BEULA D. WEIGMAN,

Petitioners

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent

ON PETITION FOR REVIEW OF THE DECISION OF THE

TAX COURT OF THE UNITED STATES

BRIEF FOR THE RESPONDENT

RICHARD C. PUGH,
Acting Assistant Attorney General.

MEYER ROTHWACKS,
ALBERT J. BEVERIDGE, III,
MARCO S. SONNENSCHEIN,
Attorneys,
Department of Justice,
Washington, D. C. 20530.

INDEX

CITATIONS

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

No. 22041

ERNEST H. WEIGMAN and BEULA D. WEIGMAN,

Petitioners

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent

ON PETITION FOR REVIEW OF THE DECISION OF THE

TAX COURT OF THE UNITED STATES

BRIEF FOR THE RESPONDENT

OPINION BELOW

The findings of fact and opinion of the Tax Court (I-R. 29-46), are reported at 47 T.C. 596.

JURISDICTION

The petition for review (I-R. 53-56) involves deficiencies in federal income tax for the taxable years 1958 through 1960 in the amount of $27,374.63. On April 15, 1964, the Commissioner of Internal Revenue mailed to the taxpayers a notice of deficiency asserting deficiencies in tax for the years 1958 through 1960 totaling $27,374.63. (I-R. 8-12.) Within ninety days thereafter,

on July 13, 1964, the taxpayers mailed[1/] a petition to the Tax Court for a redetermination of those deficiencies under the provisions of Section 6213 of the Internal Revenue Code of 1954. (I-R. 1-12.) The decision of the Tax Court was entered on March 20, 1967. (I-R. 52.) The case is brought to this Court by a petition for review filed June 15, 1967 (I-R. 53-56), within the three-month period prescribed in Section 7483 of the Internal Revenue Code of 1954. Jurisdiction is conferred on this Court by Section 7482 of that Code.

QUESTIONS PRESENTED

1. Whether the Tax Court erred in holding that the Bird Cage restaurant was operated by a bona fide, viable corporation rather than as a sole proprietorship, as claimed by taxpayers, so that any loss sustained by the business could be deducted only by the corporation and not by its shareholders.

2. Whether the Tax Court erred in holding that taxpayers' loans to a solely-owned corporation were nonbusiness bad debts as defined by Section 166(d) of the Code and, therefore, could be deducted in the year they became worthless only as a short-term capital loss.

1/ Under Section 7502 of the Internal Revenue Code of 1954, timely mailing is treated as timely filing.

STATUTES INVOLVED

Internal Revenue Code of 1954:

SEC. 165. LOSSES.

(a) General Rule.--There shall be allowed as a deduction any loss sustained during the taxable year and not compensated for by insurance or otherwise.

*   *   *

(c) Limitation on Losses of Individuals.--In the case of an individual, the deduction under subsection (a) shall be limited to--

(1) losses incurred in a trade or business;

*   *   *

(26 U.S.C. 1964 ed., Sec. 165.)

SEC. 166. BAD DEBTS.

(a) General Rule.--

(1) Wholly worthless debts.--There shall be allowed as a deduction any debt which becomes worthless within the taxable year.

*   *   *

(d) Nonbusiness Debts.--

(1) General rule.--In the case of a taxpayer other than a corporation--

(A) subsections (a) and (c) shall not apply to any nonbusiness debt; and

(B) where any nonbusiness debt becomes worthless within the taxable year, the loss resulting therefrom shall be considered a loss from the sale or exchange, during the taxable year, of a capital asset held for not more than 6 months.

> (2) Nonbusiness debt defined.--For purposes of paragraph (1), the term "nonbusiness debt" means a debt other than--
>
> (A) [as amended by Sec. 8, Technical Amendments Act of 1958, P.L. 85-866, 72 Stat. 1606] a debt created or acquired (as the case may be) in connection with a trade or business of the taxpayer; or
>
> (B) a debt the loss from the worthlessness of which is incurred in the taxpayer's trade or business.
>
> *　　　　*　　　　*

(26 U.S.C. 1964 ed., Sec. 166.)

STATEMENT

The facts, as found by the Tax Court (I-R. 30-41), some of which were stipulated (I-R. 23-27), are not in dispute and are substantially as follows:

Taxpayers, Ernest H. Weigman and Beula D. Weigman, reside at 2626 Camino Principal, Tucson, Arizona. (I-R. 31.)

Ernest H. Weigman (Weigman) lived in Chicago, Illinois, until September 26, 1965, when he moved to Tucson, Arizona. While in Chicago, and from 1942, Weigman owned and operated a corporation called Champion Railway Specialties Corporation, which was engaged in the sale of railway supplies. Among other things, that corporation sold mechanical supplies and parts used on railroad freight cars and locomotives such as handbrakes, draft gears, running boards, mats, belts, and miscellaneous items. (I-R. 31.)

Upon leaving Chicago for Tucson, Weigman liquidated the railway supply corporation but retained personally some of the railroad accounts. (I-R. 31.)

As shown in his tax returns for the years in issue, Weigman's activities with respect to the railway supply business after moving to Tucson were of a steadily diminishing nature and were carried out under the name of E. H. Weigman Railway Supply Company, a sole proprietorship located at 2626 Camino Principal, Tucson, Arizona. Thi address is the same as that shown as the principal residence of taxpayers. (I-R. 31.)

Weigman's gross and net profits from his railway supply activities, as shown in his income tax returns for 1958 through 1961 (I-R. 31), were as follows (I-R. 32):

Year	Gross Profit	Net Profit
1958	$23,005.86	$9,422.61
1959	10,781.12	3,869.40
1960	8,122.73	3,278.87
1961	3,620.05	276.34

Weigman's income tax returns for the years 1958 through 1961 show his occupation as "salesman." (I-R. 32.)

The Bird Cage Restaurant and Cocktail Lounge, Inc. (also referred to as Bird Cage), was incorporated in Arizona in June 1960. It began business on August 20, 1960, in a leased building located at 4915 North Scottsdale Road in Scottsdale, Arizona. (I-R. 32.)

Gerald O'Dell, a nephew of Beula Weigman, first brought the restaurant, known as the Bird Cage, to the attention of the Weigmans and invited them to invest in the corporation. At that time, Gerald O'Dell and William Bird were the only subscribing stockholders of the corporation. Bird was the operating manager of the restaurant. (I-R. 32.)

Taxpayers purchased a one-third share of the stock of the Bird Cage after it had commenced business. On some undisclosed date after the Weigmans purchased stock in the Bird Cage, Weigman became president of the corporation. (I-R. 32.)

The financing plan whereby taxpayers became part owners of the corporation called for a stock investment of $5,000 each by Bird, O'Dell, and Weigman plus a loan of $10,000 each to the corporation. Both Weigman and Bird made their investments and loans, but O'Dell failed to make either his investment or his loan. (I-R. 32.)

Under the agreement whereby taxpayers became stockholders, it was expected that O'Dell would share in the responsibilities of running the business. However, he had other interests and was often away from the Bird Cage. Upon being challenged on this point, he expressed a desire to get out the corporation and offered his stock for sale, and Weigman agreed to purchase it. (I-R. 33.)

On or about October 6, 1960, Weigman acquired O'Dell's interest, paying $5,000 to cover O'Dell's stock subscription and making the required $10,000 loan. This left Bird, Weigman, and their respective wives as sole shareholders in the corporation. Although taxpayers

were not familiar with the restaurant business, they came in, surveyed and studied the operation and, by late fall of 1960, drew the conclusion that it was not being operated as it should. (I-R. 33.

Taxpayers offered suggestions for changes in operating methods and criticized certain procedures which had been instituted by Bird. As a result, Bird became indignant and offered to step out of the corporation entirely and sell his stock to the taxpayers. They accepted and became the sole stockholders of the corporation around the first of March 1961. On February 5, 1961, taxpayers made a $500 down payment in cancellation of Bird's manager contract. (I-R. 33.)

The effect of the acquisition by taxpayers of O'Dell's and subsequently Bird's interest in the Bird Cage was the elimination of one shareholder who had failed to live up to the terms of the original agreement and, later, the remaining shareholders with whom taxpayers were at variance with respect to operating methods. From that time until the restaurant failed in late 1961, taxpayers personally devoted much of their time and efforts to the operation of the restaurant in an attempt to make it a successful going business. No meetings of directors or stockholders of the Bird Cage Restaurant and Cocktail Lounge, Inc., were thereafter held, or any purported meetings of stockholders or directors. (I-R. 33-34.)

Sally Graves owned the building occupied by the Bird Cage. She would not lease the premises to a corporation, but desired the individuals in control of the business to be personally obligated. Initially, William Bird had been the lessee. However, on

March 1, 1961, a new lease was executed by taxpayers in their personal capacities. The lease was for a period of 10 years and provided for a base monthly rental of $1,000, with a bonus payment when the prior month's sales exceeded the base rental. Based on a $1,000 monthly rental for the 10-year period, taxpayers' minimum aggregate personal liability under the terms of the lease, if fully executed, was approximately $120,000. (I-R. 34.)

Shortly after the execution of the lease, Jack Gausner was employed to manage the restaurant. Gausner was responsible to Weigman in the performance of his duties. (I-R. 34.)

At or about this time a number of creditors made demand for payment, and Weigman placed additional funds into the business. Weigman also advanced various sums to establish working capital for the operation of the business. (I-R. 35.)

At about the time Gausner became manager, taxpayers assisted him and gained experience in the restaurant operation. Weigman worked closely with Gausner in the over-all operation of the business, but with particular attention to handling the accounts, dealing with creditors and the assumption of a good measure of responsibility with respect to the purchasing of supplies and the employment of operating personnel. (I-R. 35.)

After Gausner became manager, the business continued to lose money and it became apparent to taxpayers that he could not meet their expectations with respect to the operation of the restaurant. (I-R. 35.)

At some undetermined time early in 1961, Gausner's employment was terminated. A sublease was later entered into by the Bird Cage Corporation with Sun Valley Management Company, Inc., to manage the business. Sun Valley was in the business of subleasing different businesses and operating them under special contracts. The agreement was for a period of 5 years and provided for the use by Sun Valley of the Bird Cage premises for the stated period and contained rental and other provisions, many of which were substantially the same as those contained in the lease between taxpayers and Sally Graves, the owner of the premises. Jerry Englis was the operating head of the Sun Valley Management Company, Inc., and also assumed management of the Bird Cage under the agreement. He was actively assisted in its management by taxpayers. (I-R. 35-36.)

Sometime in July, while the agreement between the Bird Cage and Sun Valley Management Company, Inc., was still in effect, taxpayers assigned the lease of March 1, 1961, between themselves and Sally Graves to the Bird Cage. The assignment was approved in the same instrument by Sally Graves, the lessor, with the understanding that the approval did not release taxpayers from any of their personal obligations under the lease. (I-R. 36.)

The Sun Valley Management Company, Inc., also failed in its operation of the business and defaulted on the sublease, and the agreement with that corporation was terminated. Simultaneously therewith or shortly thereafter, an arrangement was entered into by the Weigmans with Shirley Girard which was in substantial respects similar to the prior arrangement with the Sun Valley Management Company. As in their prior arrangements, taxpayers assisted in the operation of the business. (I-R. 36.)

The arrangement with Girard also proved unsuccessful. Taxpayers, through their corporation, acquired the services of Ray S. Jackson, a local restaurant manager of high reputation, sometime in October of 1961. Pursuant to Jackson's advice to change the name of the establishment, there was an assignment of the lease by the Bird Cage corporation to Jackson, doing business as Petite Cafe, Inc., on November 1, 1961. (I-R. 36.) Among other things, the assignment provided that Jackson would perform all the terms, covenants, and conditions of the lease with Sally Graves, including the payment of rent, and holding the assignor, as well as taxpayers, harmless from any and all obligations and duties enuring to it and them under that lease. Again, taxpayers assisted in the operation of the business. (I-R. 37.)

Jackson also defaulted on the sublease, and any further attempt to operate the business was suspended. The business was closed and disposed of sometime after January of 1962. (I-R. 37.)

A schedule entitled "E. H. Weigman and Beula Dell Weigman Personal Loans to Bird Cage Corp" was prepared by Ernest Weigman subsequent to the filing of taxpayers's joint federal income tax return for 1961 and prior to the filing of the Tax Court petition in proceeding. It shows loans made to the corporation as follows (I-R. 37-38):

Date		Amount
July 1, 1960		$10,000
October 6, 1960		10,000
November 23, 1960		10,000
February 5, 1961	Partial payment to William Bird to cancel manager's contract	500
February 7, 1961	Repay First National Bank loan	6,000
February 8, 1961	Rent in arrears	2,000
February 15, 1961	March rent	1,800
March 2, 1961	Liquor license	650
March 2, 1961	Payment to William Bird to cancel manager's contract	7,000
March 3, 1961	For operating expense and obligations due and past due	15,000
March 10, 1961	do	20,000
March 25, 1961	do	10,000
April 6, 1961	do	18,000
April 24, 1961	do	2,000
April 26, 1961	do	1,000
May 15, 1961	do	500
May 22, 1961	do	2,000
June 1, 1961	do	12,000
June 7, 1961	do	1,000
June 12, 1961	do	1,000
July 1, 1961	do	1,000
August 1, 1961	do	2,100
August 10, 1961	do	1,700
September 1, 1961	do	2,000
September 30, 1961	do	1,000
October 2, 1961	do	400
October 18, 1961	do	500
October 31, 1961	do	125
November 6, 1961	do	3,000

Date		Amount
November 6, 1961	do	$2,000
November 10, 1961	do	4,500
November 6, 1961	do	2,000
November 7, 1961	do	2,500
November 25, 1961	do	500
December 1, 1961	do	550
December 29, 1961	do	500
	Total loans during 1960 and 1961	$154,825
January 3, 1962	For operating expense and obligations due and past due	1,000
January 3, 1962	do	400
January 3, 1962	do	100
	Grand total 1960, 1961 and 1962	$156,325

The corporate bank account was used to receive funds from Weigman and used to pay out funds. All loans to the Bird Cage corporation were evidenced by cancelled checks and interest-bearing notes. (I-R. 38.)

The Bird Cage filed a corporation income tax return for the fiscal year beginning July 1, 1960, and ending June 30, 1961, with the District Director of Internal Revenue at Phoenix, Arizona. This return was signed on August 29, 1961, by E. H. Weigman in his capacity as president of the corporation. The corporate return shows "Loans from stockholders" outstanding as of June 30, 1961, in the amount of $122,900. The corporate return also shows, inter alia, the following (I-R. 39):

Sales	$187,531.69
Salaries and wages	6,045.49
Rents	22,696.33
Taxes	4,671.17
Depreciation on various property	10,771.12
Music and Entertainment	15,633.46
Insurance	3,811.31
Legal and audit	7,487.18
Merchandise purchased	69,549.11

The return shows a loss of $68,978.45 for the fiscal year ended June 30, 1961. (I-R. 39.)

On taxpayers' joint federal income tax return for 1961 a loss in the operation of the restaurant business was claimed in the amount of $158,669.67 as follows (I-R. 39-40):

Interest Expense		
1st Natl Bank--Scottsdale	$ 965.00	
W. F. Weigman	293.32	
J. R. Weigman	900.00	
		$ 2,158.32
Travel Expense		
Fares	$ 105.24	
Meals and lodging	1,060.92	
Car rent	9.78	
Total travel		$ 1,175.94
Telephone		510.41
Loss on notes		154,825.00
Total loss		$158,669.67

Taxpayers attached a Schedule C, Profit (or Loss) From Business or Profession, to their 1961 income tax return covering the wholesale railway supplies business, but none for the restaurant business. (I-R. 40.)

An application for a tentative carryback adjustment was filed on March 13, 1962, for the year 1961. A refund (exclusive of interest) was received by taxpayers around April 10, 1962, for each year, as follows (I-R. 40):

Year	Amount
1958	$21,593.31
1959	4,619.79
1960	1,161.53

Weigman received no salary and took no compensation from the Bird Cage operation in 1960 or 1961. He was not an employee of the corporation. (I-R. 40.)

In his notice of deficiency the Commissioner disallowed the $158,669.67 deduction claimed as a loss sustained in the operation of the restaurant business in 1961 on the ground that taxpayers had not established that they were entitled to such a deduction in that year as a result of advances made to the business. (I-R. 40.)

In holding for the Commissioner, the Tax Court found:

Taxpayers did not operate the Bird Cage as a sole proprietorship in 1961. The Bird Cage was a bona fide, viable corporation in 1961 which was engaged in carrying on business activity. (I-R. 41.)

The loans made to Bird Cage in 1961 by taxpayers were not related to a trade or business of being an employee. Ernest Weigman had no trade or business of lending money or of financing corporations. (I-R. 41.)

The amount of $158,669.67, representing loans to the Bird Cage corporation, did not constitute an ordinary business loss or a business bad debt, in whole or in part, to taxpayers in 1961. (I-R. 41.)

SUMMARY OF ARGUMENT

Taxpayers seek to deduct monies advanced by them to a restaurant business as either a loss incurred in a trade or business (Section 165) or as a business bad debt (Section 166). The Tax Court sustained the Commissioner's determination that taxpayers are entitled only to a nonbusiness bad debt deduction.

Taxpayers contend that although the restaurant business was originally operated by a corporation, this ceased to be true when they obtained 100 percent ownership of the corporate stock. Thereafter, they submit, they ignored the corporate form and conducte the business as a sole proprietorship and therefore, the losses sustained are deductible as a loss incurred in this trade or business. Nothing in the record, however, indicates that taxpayers ignored the corporate form; rather, the record indicates the contrary.

The business continued to be operated in the corporate form. Th corporate bank account was retained, and all receipts and disbursement passed through it. Every time taxpayers advanced funds to the busines, they termed it a loan, and the advances were evidenced by interest-bearing notes issued by the corporation. The corporation acquired the lease of the business premises and in turn, subleased the premises to another company. The corporation filed a corporate tax return which was signed by one of the taxpayers in his capacity as president. Finally, on their individual tax return, taxpayers did not indicate that they were in the restaurant business nor did they attach a Schedu C (Profit or Loss from Business or Profession).

Taxpayers' rely on the fact that they held no corporate meetings nor elections, but this is a common occurrence in closely held corporations and does not indicate that a business is not being conducted in corporate form. As for taxpayers' major evidentiary point, namely, that they and not the corporation were personally liable on the lease, this is readily explained by the fact that the lessor would not lease the premises to a corporation but only to the individual or individuals in control of the business.

The record therefore amply supports the Tax Court's finding that the restaurant was operated by a bona fide, viable corporation and it, the business, was not operated by taxpayers as a sole proprietorship.

Taxpayers also appear to urge that if the business was conducted by the corporation, the loans that they made to it, which were not repaid, are deductible as a business rather than a nonbusiness bad debt. Section 166 of the Internal Revenue Code provides that in order to obtain a business bad debt deduction, an individual must show that the debt was incurred by him in his trade or business. The Supreme Court has held that for the purposes of this section the furnishing of services and advice to a wholly owned corporation is not a business. To be eligible for deduction, a taxpayer must show that the loan was made in either: the business of loaning money, the business of promoting and financing corporations, taxpayer's business of working as an employee of the debtor, or in some other commercial relationship. Taxpayers do not contend that they fit within any of these tests--they only contend they were financing their restaurant.

Accordingly, the loans were not incurred in taxpayers' trade or business and they are entitled only to deduct the losses as a short-term nonbusiness bad debt.

ARGUMENT

I

THE TAX COURT WAS CORRECT IN FINDING THAT THE BUSINESS OF BIRD CAGE RESTAURANT WAS CONDUCTED BY TAXPAYERS' WHOLLY-OWNED, BONA FIDE CORPORATION, AND NOT BY THE TAXPAYERS AS AN INDIVIDUAL PROPRIETORSHIP

In order for an individual to obtain a loss deduction under Section 165(c)(1) of the Internal Revenue Code of 1954, he must show that the loss was incurred in his trade or business. In the instant case, taxpayers contend that they operated a restaurant as a sole proprietorship and therefore, the losses sustained by the restaurant are deductible on their individual income tax return. However, the Tax Court found that the restaurant was operated by a corporation and therefore, the losses could be deducted only by that taxpayer. As will be shown, the Tax Court was correct.

The test as to whether a corporation is to be recognized for purposes of the income tax law was established by the Supreme Court in Moline Properties v. Commissioner, 319 U.S. 436. The test is whether the organization of the corporation is the equivalent of business activity (thereby preventing sham transactions) or is followed by the carrying on of business by the corporation. See also National Carbide Corp. v. Commissioner, 336 U.S. 422. This Court expressed the rule in O'Neill v. Commissioner, 271 F. 2d 44, 49:

> The chief complaint of the taxpayer * * * is that the Tax Court should have disregarded the corporate status of Eagle Timber. The taxpayer argues that

> since he was the owner of the corporation, we should entirely disregard the corporation and adopt his contentions. As a general rule, a corporation is to be treated as an entity separate from the individuals who own it. * * * An exception is recognized and the corporate structure may be disregarded where (1) the purpose of its creation was not a business purpose, and (2) the creation was not followed by any business activity. * * *
>
> On the other hand, where the corporation is created for a business activity or the creation is followed by business activity, the corporation must be recognized as a separate entity. * * *

Taxpayers do not dispute that the Bird Cage was formed with a business purpose and, in fact, even agree that following the incorporation, the corporation carried on the business activity of operating a restaurant and cocktail lounge. (I-R. 24.) However, they claim (Br. 9) that afterwards--that is, following their becoming 100 percent owners of the corporate stock--the corporation ceased to operate the restaurant and thereafter the restaurant was operated by them as a sole proprietorship.

Although taxpayers contend they ignored the corporate structure, the evidence shows that time after time they worked through the corporate form. Thus, they not only retained the corporate bank account, but all payments and receipts of the restaurant passed through it. (I-R. 44.) The loans (advances) made by taxpayers to the restaurant were evidenced by interest-bearing notes of the corporation (I-R. 44), which indicates that taxpayers realized that they were transacting business with an entity apart from themselves. The corporation on two separate occasions entered into a sub-lease: once with Sun Valley Management Co. (although at the time, Bird Cage

was not the lessee of the premises, this matter was rectified shortly thereafter when taxpayer assigned the lease to the corporation) and later, with Ray S. Jackson.

Also, taxpayers filed a corporate return for the fiscal year ended June 30, 1961, which was signed by Weigman in his capacity as president of the corporation. (I-R. 39.) The corporate return indicated that the $122,900 which taxpayers had put into the business were "Loans from stockholders". (I-R. 39.) And on their own income tax return for 1961, taxpayers gave no indication (other than claimin a loss from the restaurant operation) that they believed the restaurant to be their trade or business. Weigman listed his occupation as "salesman." (I-R. 32.) More importantly, although taxpayers attached a Schedule C, Profit (or Loss) From Business or Profession, to this return for the wholesale railing supplies busines, they did not attach such a schedule for the restaurant business. (I-R. 40.) None of these facts are disputed by taxpayers, yet, nonetheless, they make no effort to overcome their significance. Indeed, they quite candidly state (Br. 19-20) "The use of the corporate bank account (which the Weigmans allege was continued for convenience), and the filing of tax returns for 1961 cannot be ignored" (Br. 19-20).

Taxpayers of course point to those facts which they contend show that they were ignoring the corporate existence. Their major contention (Br. 19) is that they, and not the corporation, leased the premises occupied by Bird Cage. But as the Tax Court found (I-R. 34) (a fact which taxpayers do not contest)--

> Sally Graves owned the building occupied by the Bird Cage. She would not lease the premises to a corporation, but desired the individual or individuals in control of the business to be personally obligated.

Thus, the reason taxpayers entered into the lease personally is not because they were operating a sole proprietorship but because the lessor would not do business with a corporation. This is clearly shown by the fact that even during the period taxpayers agree the corporation operated the business, the lessee was an individual (William Bird), and not the corporation. Accordingly, little, if any, weight can be attached to the fact that taxpayers were personally liable as lessees once they obtained full ownership of the corporation.

As was noted above, taxpayers later assigned the lease to the corporation. No explanation was given by taxpayers why they made the assignment, but it appears that they realized, or were advised, that the prior sublease agreement between Bird Cage Corporation and Sun Valley would not be binding on Sun Valley if Bird Cage Corporation had no right to lease the premises. Whether this be the reason or not the assignment of the lease was later entered into by taxpayers and the corporation, the assignment clearly indicates that taxpayers were hardly ignoring the existence of the corporation. And taxpayers cannot claim that in this instance they were acting without advice from knowledgeable persons, 2/ as they contend elsewhere (Br. 13-14), for the execution of the assignment was done in the presence of taxpayers' counsel. (II-R. 35.)

2/ Of course, taxpayer E. H. Weigman appears to have some knowledge of business affairs. He had previously owned and operated a corporation, which he liquidated, and he personally retained some of the accounts. (I-R. 31.) Therefore, taxpayers are hardly as ignorant of corporate operations as they implied in the Tax Court.

As for the other facts cited (Br. 19) by taxpayers, these are hardly persuasive that the corporate entity had been cast aside. Indeed, all of them are consistent with the actions of individuals who are the sole owners of a corporation. Thus, one would expect that taxpayers as the corporation's only shareholders would be the source of its working capital unless, of course, the corporation were operating at a profit. It is noteworthy that each advance was evidenced by an interest-bearing note, a procedure which would be absurd if taxpayers were truly putting in funds in a sole proprietorship.

The failure to adhere to corporate practices, such as elections, conducting meetings, or maintaining corporate minutes, is a common occurrence in closely-held corporations, and the failure to comply with these practices does not constitute grounds for not recognizing the corporation. O'Neill v. Commissioner, supra, p. 49. As for taxpayers' "* * * continued control of the operation of the restaurant" (Br. 19)--a fact on which they place great emphasis--it is obvious that a corporation can only function through the activities of its owners and managers. In this connection, the Supreme Court in National Carbide Corp. v. Commissioner, supra, has said (pp. 431-43

> * * * that under our decisions, when a corporation carries on business activity the fact that the owner retains direction of its affairs down to the minutest detail, provides all of its assets and takes all of its profits can make no difference tax-wise. * * *
>
> * * * Undoubtedly the great majority of corporations owned by sole stockholders are "dummies" in the sense that their policies and day-to-day activities are determined not as decisions of the corporation but by their owners acting individually. * * *

Clearly, then, none of the facts which taxpayers put forth in any way indicate, much less establish, that they had cast aside the corporation and undertaken the restaurant business as their own. To the contrary, the record shows that taxpayers dealt through and with the corporation as the operator of the business and as the separate entity that it was.[4] We submit that the Tax Court aptly summarized this case when it stated (I-R. 45):

> Weigman was an experienced businessman who knew what he was doing while he owned and controlled the Bird Cage corporation during 1961. He did not sound taps over a lifeless corporation. He did not extricate himself from the corporation. Instead, he consciously chose to continue and operate the corporation throughout most of 1961. See Omaha National Bank v. Commissioner, 183 F. 2d 899 (C.A. 8, 1950), affirming a Memorandum Opinion of this Court, which is factually similar to this case. Here the petitioner adopted the corporate form for purposes of his own. The choice of the advantages of incorporation to do business requires the acceptance of its tax disadvantages. Burnet v. Commonwealth Imp. Co., 287 U.S. 415 (1932). When the petitioner became the sole stockholder of the corporation in March 1961, he could have voluntarily dissolved

4/ Although taxpayers note (Br. 22) that the trial judge dissented from the opinion of the Tax Court, they do not urge that this constitutes reversible error. Of course, Section 7460(b) of the 1954 Code specifically provides:

> SEC. 7460. PROVISIONS OF SPECIAL APPLICATION TO DIVISIONS.
>
> *   *   *
>
> (b) Effect of Action by a Division.--The report of the division shall become the report of the Tax Court within 30 days after such report by the division, unless within such period the chief judge has directed that such report shall be reviewed by the Tax Court. * * *
>
> (26 U.S.C. 1964 ed., Sec. 7460.)

(continued)

the corporation pursuant to section 10-361 et seq., Arizona Revised Statutes Annotated, and started anew as a sole proprietorship. But that he did not do. Unfortunately for him, the income tax predicament in which he now finds himself was of his own making and any attempt to wish it away now is insufficient. Accordingly, any losses sustained from the operation of the restaurant business are properly attributable to the Bird Cage corporation rather than to the Weigmans.

4/ (continued)
And in Hamlin's Trust v. Commissioner, 209 F. 2d 761 (C.A. 10th), the court stated (p. 764):

> It is not urged that it was reversible error for one member of the court to conduct the hearing and another member to write the findings of fact and the opinion. The substance of the argument is that the findings of the member of the court who conducted the hearing are entitled to greater weight than are the findings of the other members who did not observe the witnesses and hear their testimony. There is no express requirement in law that the member of the Tax Court who presided at the hearing and observed the witnesses while testifying shall make the findings of fact and write the opinion of the court, and it is not reversible error for one member to conduct the hearing and another member to prepare the findings of fact and write the opinion. Halle v. Commissioner, 2 Cir., 175 F. 2d 500, certiorari denied, 338 U.S. 949, 70 S. Ct. 485, 94 L. Ed. 586. Manifestly, where the case turns upon a controverted issue of fact concerning which there is a conflict in the oral testimony, the member of the court who observed the witnesses while testifying and thus had an opportunity to appraise their credibility and determine the weight to be given to their testimony is in a better position than are other members of the court to resolve the conflict or conflicts and reach the correct determination of the ultimate fact or facts. But these generalizations are not controlling here for the reason that there was little or no substantial conflict in the evidence relating to the decisive question of fact.

In the instant case, there was no conflict in the evidence whatever.

In closing, it should be noted that the dissent urges that the majority is in error because by holding for the Commissioner, form is controlling substance. However, this case does not turn on the technical failure of taxpayers to dissolve the corporation. Rather, the entire record shows that taxpayers acted in complete conformity with the practices one would expect when a corporation is owned by one or two shareholders. The dissent does not indicate how this case is distinguishable from the ordinary case of the operation of a closely-held corporation. Stated differently, there is nothing in the record that indicates that taxpayers were acting on their own behalf and not on behalf of the corporation. Ripley v. Commissioner, 26 T.C. 1203, relied on by the dissent is not in point. There, a corporation entered into an arm's-length agreement with taxpayer that he would operate the corporation for a year, reaping all profits and sustaining all losses. The Court permitted taxpayer a loss deduction, holding that he had a business different from the business of the corporation, i.e., his business was to carry out the terms of the contract which required him to furnish personal services in carrying on the business of the corporation. The court went on to note (p. 1209):

> The items of income and expense for that period from the operation of the business of the corporation such as gross sales, cost of goods sold, wages, officers' salaries, and like items, were those of the corporation and not of the petitioner because such separate items would not represent income or expense of his business.

In the instant case, taxpayer does not claim to have a business separate from the corporation, he insists that his business was the restaurant business.

As for Kittle v. United States, decided December 14, 1966 (67-1 U.S.T.C., par. 9241), also cited by the dissent, that case was unlike the instant one for there, much of the evidence was in dispute. For example, taxpayers contended that they owned all the assets of the business, indicating the absence of corporate existence. The Government, on the other hand, contended that the corporation owned the assets. Accordingly, on the evidence, the jury could have found that the corporation did not own assets, carried on no business activity, and that the business was really a sole proprietorship.

II

THE TAX COURT WAS CORRECT IN HOLDING THAT TAXPAYERS' LOANS TO THE CORPORATION WERE NOT INCURRED IN TAXPAYERS' TRADE OR BUSINESS

For purposes of this discussion, we are assuming that taxpayers' contention here is an alternative one--namely, assuming that the restaurant was operated by the corporation then the loans (advances) made by taxpayers to the restaurant are deductible as a business bad debt. 5/

5/ The Supreme Court in Putnam v. Commissioner, 352 U.S. 82, stated that a taxpayer seeking a bad debt deduction could not urge in the alternative that he had a loss deduction. That is, if he sought a Section 166 deduction, he could only obtain relief under that provision or not at all, i.e., he could not obtain a Section 165 deduction. In that case, taxpayer urged he had a bad debt incurred in his trade or business (Section 166) but if not, then he had a loss incurred in a transaction entered into for a profit and not related to his trade or business (Section 165). Although here taxpayers rely on both sections, their argument is slightly differen[t]. They seek a Section 165 loss on the basis that their advances were made in their trade or business or in the alternative, they had a business bad debt.

Section 166(a) provides a deduction in full for worthless debts. However, Section 166(d) provides that nonbusiness bad debts shall be treated as losses on the sale of short-term capital assets. A nonbusiness bad debt is a debt other than one the loss from the worthlessness of which is incurred in the taxpayer's trade or business.[6/] Accordingly for taxpayers to obtain the business bad debt deduction that they seek, they must show that the advances were related to the conduct of a trade or business in which they were engaged. Whipple v. Commissioner, 373 U.S. 193; United States v. Keeler, 308 F. 2d 424 (C.A. 9th).

Because the business of a taxpayer is distinct from that of its shareholders (Deputy v. DuPont, 308 U.S. 489; Burnet v. Clark, 287 U.S. 410), the individual shareholder who owns a corporate enterprise and manages his investment therein, including occasional advances of money to them, is not conducting a trade or business. His return is an investor's return, and his bad debts are nonbusiness bad debts even though the corporation is involved in a trade or business. Whipple v. Commissioner, supra; Higgins v. Commissioner, 312 U.S. 212.

6/ In Putnam v. Commissioner, supra, the Supreme Court stated that the purpose for treating nonbusiness bad debts as short-term capital losses was to (pp. 91-92): (a) minimize the revenue losses attributable to the fraudulent practices of taxpayers who made gifts disguised as loans to friends and relatives and (b) to put nonbusiness investments in the form of loans on equal footing with other nonbusiness investments.

In Whipple [7/] the taxpayer had organized a number of corporations contributing to each his own initiative and energy and such financial backing as it required. The Supreme Court, sustaining the Court of Appeals for the Fifth Circuit, held that the taxpayer's activities with regard to these corporations did not constitute a separate business, so that a bad debt resulting from a loan to one of these corporations did not constitute a business bad debt. It did not matter how many corporations were involved or how extensive taxpayer' activities had been, for the only return taxpayer could have derived from these activities was that of an investor. The Court stated (p. 202):

> Devoting one's time and energies to the affairs of a corporation is not of itself, and without more, a trade or business of the persons so engaged. Though such activities may produce income, profit or gain in the form of dividends or enhancement in the value of an investment, this return is distinctive to the process of investing and is generated by the successful operation of the corporation's business as distinguished from the trade or business of the taxpayer himself. When the only return is that of an investor, the taxpayer has not satisfied his burden of demonstrating that he is engaged in a trade or business since investing is not a trade or business and the return to the taxpayer, though not from his own trade or business but from that of the corporation. 7/

7/ Whipple of course deals with bad debt losses, an issue which the dissent felt was not in issue in the instant case. (I-R. 50.) This view--that the case does not involve bad debts--explains why the dissent concluded (I-R. 50) that this case is not like the Whipple case.

In order to be eligible for a business bad debt loss, the taxpayer must show that the loan arises: (1) in the business of loaning money, or (2) in the business of promoting, financing, and managing business enterprises; Whipple v. Commissioner, supra; United States v. Keeler, supra, p. 428 or, (3) in order to protect the taxpayer's business of working as an employee of the debtor; Trent v. Commissioner, 291 F. 2d 669 (C.A. 2d), or in some other commercial relationship with the debtor that can be termed a business rather than an investment. Dorimey v. Commissioner, 26 T.C. 940 (loans to a corporation formed to insure a source of supply to taxpayer's produce business). Taxpayers here do not come within the ambit of any of these tests. Taxpayers were not in the business of lending money or financing corporations nor have they urged that they were employees of the corporation. There was no other commercial relationship with Bird Cage which would be termed a business rather than an investment. As the Tax Court concluded (I-R. 46):

> Since Weigman has not established to our satisfaction that the loans made to the Bird Cage corporation were incurred in his trade or business, it follows inexorably that the claimed bad debt was not a business bad debt and we so hold.

CONCLUSION

For the reasons stated above, the decision of the Tax Court is correct and should be affirmed.

Respectfully submitted,

RICHARD C. PUGH,
Acting Assistant Attorney Ge

MEYER ROTHWACKS,
ALBERT J. BEVERIDGE, III,
MARCO S. SONNENSCHEIN,
Attorneys,
Department of Justice,
Washington, D. C. 20530.

FEBRUARY, 1968.

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Dated: ________________ day of ______________, 1968.

MARCO S. SONNENSCHEIN
Attorney

No. 22,042

United States Court of Appeals

For the Ninth Circuit

SIDNEY L. IRWIN, RAY LESTER LONG, SHERRILL LONG, ALAN DUANE LUTHER, MELVIN LONG, WAYNE KING and HARRY EDWARD ALLEN,

Appellants,

vs.

BB CLARK, doing business as Oilfield Vacuum Service,

Appellee.

APPELLANTS' BRIEF

DI GIORGIO, DAVIS, NAIRN & KLEIN,
1000 Truxtun Avenue,
Bakersfield, California 93301,
Attorneys for Appellants.

PERNAU-WALSH PRINTING CO., SAN FRANCISCO

Subject Index

Table of Authorities Cited

Statutes

Rules

No. 22,042

United States Court of Appeals

For the Ninth Circuit

SDNEY L. IRWIN, RAY LESTER LONG, SHERRILL LONG, ALAN DUANE LUTHER, MELVIN LONG, WAYNE KING and HARRY EDWARD ALLEN,

Appellants,

vs.

JOB CLARK, doing business as Oilfield Vacuum Service,

Appellee.

APPELLANTS' BRIEF

PRELIMINARY STATEMENT

In this case we feel it would be helpful to state, at th outset, the essential point of the appeal in very ect and simple terms. We will either stand or fall wh it; there is no secondary position to which we clim the right to retreat.

We charge a continuing violation of the Fair Labor Sndards Act for which appellants should have reered damages. Appellants were truck drivers wose hourly wages were computed to start only wen a job order came in, regardless of how many hrs prior to this they had been waiting on the

employer's premises to be put to work. We will show, *solely and exclusively by the employer's own evidence,* that work was more likely to be obtained by those present on the premises than by those at home. (One foreman candidly testified to instructing new employees that "the early bird catches the worm.")

The trial Court, in denying a motion for new trial, expressly conceded that presence on the premises was "one of the factors" which led to obtaining work. Nonetheless it held that the presence of the men on the premises was "voluntary", presumably in that they were free to take the risk of a smaller paycheck if they wished to. For the purpose of this appeal, and for this purpose only, it is assumed arguendo that they would not actually have been fired if they had made a practice of remaining home waiting for a call to work.

And so the question is this: as a matter of law, is presence on the employer's premises "voluntary" if it is induced by the likelihood of a better paycheck?

We expect to be met by the contention that "this was a finding of fact for the trial court." But a finding that apples are oranges cannot be thus defended. The question is one of law, and we say respectfully that the trial Court erred in ruling upon it. The balance of this brief will follow the format of Rule 18 to the best of our ability.

JURISDICTIONAL STATEMENT

This is an appeal from a final judgment entered on ebruary 17, 1967, by the United States District ourt for the Eastern District of California, on February 17, 1967 (R. 103), denying to appellants the eater part of the damages they sought in the action nder the Fair Labor Standards Act and necessarily nying to counsel for appellants the greater part the attorney's fee which he sought based on apellants' computation of damages (R. 103). To avoid nfusion, it should be explained that at the time the tion was commenced, the trial Court was the United ates District Court, Southern District of California, orthern Division, but before judgment was rendered had become the Eastern District.

The action was brought to recover unpaid wages d overtime compensation as well as an additional ual amount as liquidated damages and reasonable unsel fees under the provisions of the Act of June , 1938, c. 676, 52 Stat. 1069, 29 U.S.C. Sections 201-9, known as the Fair Labor Standards Act, a law the United States regulating interstate commerce Second Amended Complaint, R. 19, and Answer to econd Amended Complaint, R. 24).

Jurisdiction was conferred on the trial Court by the ovisions of 28 U.S.C. 1337, and was invoked by the econd Amended Complaint pursuant to this section R. 19). A timely notice of appeal to this Court was ed on May 1, 1967 (R. 125), after the denial of a otion for new trial on April 25, 1967, by the trial ourt (R. 124). This Court's jurisdiction accordingly sts upon 28 U.S.C. 1291.

STATEMENT OF THE CASE

As previously stated, this is an action brough under the Fair Labor Standards Act by certai truck drivers, appellants here, who sought to recove compensation for unpaid working time, overtim liquidated double damages, and attorney's fees an costs.

1. The Fair Labor Standards Act

In 1938 Congress invoked the powers vested in i by the commerce clause to say that there existed i industries subject to this clause "labor condition detrimental to the maintenance of the minimu standard of living necessary for health, efficiency an general well being of workers which put an undesi able burden on interstate commerce, constituted a unfair method of competition in commerce, led t labor disputes burdening and obstructing commer and interfered with the orderly and fair marketing o goods in commerce (29 U.S.C.A. 202-a).

Speaking a little more directly than does the stat tory language of Section 202, a Circuit Court of A peal has said the two major purposes of the chapt are to reinforce employee bargaining power concer ing wages by prohibiting wage rates below a certai level and reinforce employee bargaining power co cerning hours of labor by exerting financial pressu upon the employer to limit hours to a certain leve *Murray v. Noblesville Milling Co.,* 131 F. 2d 47 certiorari denied, 63 Supreme Ct. 832, 318 U.S. 77 87 L. Ed. 1145.

Definitions which establish the scope, coverage and urisdiction under the Act are contained in 29].S.C.A. 203. Minimum wages are established in 29].S.C.A. 206, and the overtime provisions of the Act re contained in 29 U.S.C.A. 207. In addition to proiding for the recovery of wages not paid in violation f these sections, Congress provided that the trial 'ourt could in the exercise of its sound discretion npose liquidated damages in double the amount of ıe unpaid compensation. 29 U.S.C.A. 216-b and 29].S.C.A. 260. The payment by the employer of a ›asonable attorney's fee to counsel for the employees also provided for in 29 U.S.C.A. 216-b, as also is the ecovery of costs of the action.

In its modern day application, the Act has little elevance where employees are effectively organized ı unions and negotiate their hours and wages through ›llective bargaining or the exercise of counter-economic pressure. The Act now serves to provide miniıum labor standards for employees in particular ıdustries, particularly businesses, or particular georaphic areas where no such organization exists and ıe bargaining power of employees is weak.

The facts of this case

It may serve to avoid confusion to note that the ranscript of record only incorporates the Reporter's 'ranscript by reference (p. 2 of Index). The Reorter's Transcript itself was prepared prior to judgıent and is before this Court in two volumes as a eparate document and thus has its own pagination

rather than pagination which follows the rest of the transcript.

A pre-trial order, approved as to form and content by both counsel and signed by the trial Court on December 6, 1965, provided that the trial Court had jurisdiction by virtue of the provisions of 28 U.S.C. 1337 and that the following facts were admitted and required no proof:

1. The plaintiffs were employees of the defendant during the times and at the wages showed in the accounting heretofore rendered by the defendant in the course of discovery proceedings.
2. At the times pertinent to the complaint defendant operated a business which engaged in the work of oilfield servicing; at the same said time plaintiffs were truck drivers employed by the defendant.
3. That plaintiffs were paid for all hours actually worked at either the hourly wage rate or the overtime rate but were not paid for waiting time at the defendant's premises. (R 16-17)

The pre-trial order went on to quote the following issues of fact and no others remained to be litigated upon the trial:

A. Was the work performed by the plaintiffs directly essential to the production of oil which moved in interstate commerce or was said work a process closely related to said production of oil, so as to bring plaintiffs within the purview of the Fair Labor Standards Act

B. Are plaintiffs entitled to compensation for waiting time upon defendant's premises under the Fair Labor Standards Act?

C. Is waiting time to be considered hours worked for purposes of computing minimum wages and overtime, as required by the Act?

D. Are plaintiffs barred from recovering for the waiting time spent at defendant's yard because such presence was a part of the oral or written contracts of employment between plaintiffs and defendant or because such waiting time is a part of the custom and practice in the industry?

E. What is the amount of minimum wages and overtime due to each plaintiff, if any?

F. Are plaintiffs entitled to double recovery as provided in 29 U.S.C.A. 216b?

G. What, if any, should be the reasonable attorney's fee to be paid by the defendant, and what, if any, are the costs which should be paid by the defendant, as provided in 29 U.S.C.A. 216b? (R. 17-18)

There was no controversy as to the accuracy of the ecords kept by appellee of the hours actually logged y appellants during the two year statutory period rior to the filing of the complaint. Plaintiff's Exibit 4. Conversely, it is not disputed that the emloyer kept no record of unpaid waiting time. The oregoing statements are made in connection with the rovisions of the pre-trial order respecting an acounting rendered by the appellee in the course of iscovery proceedings to the appellants (R. 16, line 1 to R. 17, line 1).

It should further be noted in connection with th pre-trial order that the reservation of the question o whether appellee was engaged in commerce so as t bring plaintiffs within the purview of the Fair Labo Standards Act was resolved by an oral stipulatio that Mr. Clark was engaged in commercial activit bringing plaintiffs within the purview of the Fa Labor Standards Act (R.T. 188, lines 8-10).

Reserving for a moment the key question o whether the waiting time involved in this case wa compensable, it should next be pointed out that th total amount of waiting time spent by appellants du ing the two year statutory period prior to the filin of the complaint was very much in dispute. Appe lants presented the testimony of an accountant base upon the testimony of the appellant drivers as to th average amount of waiting time spent per week. Ap pellants presented oral testimony under the rule i *Anderson v. Mt. Clements Pottery Co.*, 328 U.S. 68 90 L. Ed. 1515, holding that where the employer ha failed to keep any records, as he did here of th unpaid waiting time,

> "an employee has carried out his burden if h proves that he has in fact performed work fo which he was improperly compensated and if h produces sufficient evidence to show the amoun and extent of that work as a matter of just an reasonable inference, the burden shifts to the em ployer to come forward with the evidence of th precise amount of work performed."

The evidence was summarized for the trial Court i our opening trial Court brief (R. 45 et seq. and spe

ifially R. 51). Contrary evidence was presented by hcappellee assertedly showing that the computations rented by appellants' accountant were too high.

'he reason we do not think it necessary to go into nrelative merits of the opposing views in this repet is that since the trial Court made a finding n the waiting time was not compensable *at all* wth a small exception which will be noted in a ment), it followed that the trial Court made no ning whatever with respect to the amount of it. cordingly, if we obtain the reversal we seek here, ttrial Court, upon remand, will have before it the istion of the amount of unpaid waiting time, the ropriety of imposing liquidated damages in double eamount, as well as the question of the appropriteattorney's fee and costs of suit which should be vrded in view of the larger judgment. The findings he trial Court which fail to include any finding as the amount of unpaid waiting time are at R. 01.

ow as to the evidence concerning the pivotal quesc raised by this appeal: as stated earlier, the facts i be framed for purposes of this appeal solely iin the framework of appellee's own evidence.[1]

---

[1]However, this Court may feel moved to take into account the smony of Arminta McClain, particularly at R.T. p. 4, line 24 nugh p. 8, line 7, in view of the fact that the trial Court re- on some of her evidence, and apparently thus found her ible, in denying our motion for new trial. (R. 124)
oreover, it is with a hard gulp that we relinquish the right ely on the testimony of Teamster official Joe Foster, who fied regarding appellee's statement to him as follows:

The company instructions to the appellant truc drivers which gave rise to unpaid waiting time wei accurately stated by the employer's own foremei Even after the wages and hours investigation wa completed, thus plainly calling to appellee's attentio the impropriety of his conduct with respect to wait ing time, it was the testimony of Milton F. Grime: his foreman, that appellee instructed his employee as follows:

> "Q. Was there a meeting that took place a about the time Mr. Sturgis completed his investi gation out there in which you attended and M Clark attended and the men attended?
>
> A. I believe so.
>
> Q. And Mr. Clark, one might say, officiated a that meeting?
>
> A. As I recall, he was there; yes.
>
> Q. What did he tell them then?
>
> A. In what way, sir?
>
> Q. What did he tell the men particularly wit respect to showing up at 7:00 o'clock and whe they could leave and so forth.
>
> A. Well, he told them they didn't have t show up.

"A. Do you want the exact words or the crux of h statement?

Q. Go ahead.

A. He said, 'We have to service our customers on shor notice because if we don't do it this way we won't get th business, because if we have to wait for them fellows t come from their home to get out here and pick the truck u we won't get the job; somebody else would be doing it—an they're going to be down here available for work.' That exactly what he said." (R.T. p. 174, lines 5-14)

It is to be noted that we did not adduce this testimony o direct examination, but rather it was adduced by appellee's cou sel himself on cross-examination.

Q. Ever?

A. I believe his words were, 'You don't have to show up unless you want to.'

Q. 'But if you don't show up,' what?

A. *If you don't show up, the boys that were there would get the job."* (R. 32, line 24 to R. 33, line 7)

The foreman who preceded Grimes and whose nure filled out the two year statutory period with ich the case is concerned was named Ben D. Kretger. He testified as follows:

"Q. Did you have any conversation about when the work came in or anything of that nature?

A. Oh, yes; they'd ask me—nearly all of them would ask me what time they should show up around there and I'd say, 'Well, usually show up around 7:00 o'clock, the rest of the boys do and to make a good job out of it, it would be well to show up at 7:00 o'clock; it's up to you.' *About show-up time, 'If you want to make a living, the early bird gets the worm.'"* (R. 32)

Even appellee himself, although he hedged a bit, sentially confirmed what his own foremen had testid to. At R.T. 137, lines 2-13, he testified as follows:

"Q. Do you know why they were there?

A. Waiting to be hired is all that I could say that they would be waiting for.

Q. Would they be more apt to get the job if they were there than if they had to be called at home?

A. If it were a rush job or—yes.

Q. In other words, is it a fair statement to say that you are testifying that the men who didn't show up at 7:00 o'clock prior to this date of the departure of the dispatcher for back east were doing it on their own initiative because they thought they might have a chance to get a run job?

A. Yes." (R.T. 136, line 11 to R.T. 137, line 14)

Thus, even according to appellee and his own foremen, the presence of appellants on the premises during the uncompensated waiting periods was done under the economic coercion of earning lesser money if they took their chances by staying home. The question presented by this appeal is whether the trial Court, in finding that the men were "free to come and go as they pleased" (R. 97, line 27) was grounds for finding that the time was not compensable, or whether, on the other hand, the clear evidence that economic coercion made the waiting time involuntary in *fact*, even if it is assumed that it was "voluntary" in form, made the unpaid waiting time compensable under the Fair Labor Standards Act.

The trial Court rendered judgment for the short period of time between June 25, 1965, and July 5, 1965, on the basis that the appellants were actually required to remain on the premises by explicit orders during that period (R. 100, lines 19-22). The amounts were nominal, although it was interesting to note that the Court imposed the penalty which may be imposed on a discretionary basis for this tiny period by giving

e full measure of double damages in each case (29 .S.C.A. 216-b, 29 U.S.C.A. 260, and R. 103-104).

From this judgment we appeal.

SPECIFICATION OF ERRORS RELIED UPON

1. The District Court erred in finding that the iiting time spent by appellants on appellee's prem-es was not compensable.

2. The District Court erred in refusing to render dgment for the uncompensated waiting time, with e nominal exception heretofore mentioned.

3. The District Court erred in not rendering judg-ent substantially as proposed in the opening trial urt brief (R. 51) in the total sum of $51,892.16, or some other amount supported by the evidence.

ARGUMENT

We think appellee's own evidence makes it per-tly clear that the time spent by appellants on ap-llee's premises waiting for jobs to come in was oluntary" solely in the sense that the men were e to stay home and starve themselves and their nilies to death if they wished to. And we think equally clear that the trial Court's finding that the n were "free to come and go as they pleased" is y true in the sense that the men were free to leave premises any time they were willing to lessen the elihood that they would have any work that day

(cf. testimony of the foreman Grimes, the forem Kretzinger and appellee himself, already quoted a cited). The question is therefore starkly present may an employer use the economic coercion of work or no work on a given day to pressure the ployees to remain on his premises, even assum arguendo that their presence was in that cont "voluntary" and that in the same context the m were "free to come and go as they pleased."

Walling v. Dunbar Transfer and Storage, Inc. Labor Cases 64,599 at 64,600 (we can find no F Supp. citation), is a good point of departure. think it worthwhile to quote the Court at length follows:

> "('Call and Demand' Service)
>
> "Defendant furnishes 'call and demand serv to other common carriers and the general pub representing itself to be prepared to han freight at any time on demand without pr arrangements.
>
> * * * * * * * *
>
> "(Employment Upon 'check-in and check-o Basis)
>
> "(1) Employees were not credited with compensated for all hours worked: From the fective date of the Act to the date of trial, fendant worked drivers and helpers upon 'check-in and check-out' basis. By schedules a bulletins prepared and posted, as well as by structions from defendant's officials, employ were required to report and did report for w at specified times each day. They were 'punched on' the time clock when reported

accordance with instructions unless they were immediately assigned to some specific task. When they were eventually assigned to some specific task they were 'punched in', but received no credit for the time between the time they reported and the time they were assigned to the specific task. When each individual task was completed, employees were 'punched out' but were required to remain on or near defendant's premises for later assignments. Defendant furnished and equipped a room for the use of employees when not engaged in performing a specific task. By instructions of defendant's officials, defendant's employees were not permitted to leave the premises until specified times each day, except upon express permission of defendant's officials . . .

"It was for the benefit and to the advantage of defendant and necessary for the successful operation of its business that its employees remain immediately available for assignment to specified tasks.

"If employees absented themselves without permission, upon their return they were criticized by defendant's officials, warned that such absence must not be repeated, *and in some instances, at least, they were discriminated against.*

"Employees waited for varying periods after reporting for work before receiving a specific assignment, and were checked in and out between jobs even though as little time as two or three minutes intervened between specific tasks, and under instructions of defendant's officials remained on the premises after their final specific assignment, for the day as much as an hour and

a half to two hours without receiving cre therefor.

"(Waiting time of Truck Drivers)

"Defendant had contracts with the Ac Freight Forwarding Company under which picked up freight at railway terminals for livery in Shelby County, Tennessee, and W Memphis, Arkansas. At each of the railway t minals defendant had a foreman. When ployees were required to go to the freig terminals to pick up Acme freight, they w instructed so to do by the warehouse forem who at the time he gave the instructions, punch the employees off the clock if they at the ti were engaged in a specific task. Employees w then required to get their trucks from the gara check the gas and tires, drive to the railway t minal, and wait for a loading space, a freight to be unloaded or a checker to be available bef they could begin loading their trucks. They ceived no credit or compensation for time spent, being credited only with time spent aft they started loading. The freight terminal fo man at one of the terminals prepared what a known as 'Acme time slips' upon which entered the time each employee arrived at t terminal, the time he started loading and t time he left the terminal; at the other freig terminals the foreman prepared such slips sho ing the time the employee started to load and t time he left the terminal. These slips were livered to defendant's timekeeper who enter upon the employee's time cards as the time started to work the time the Acme slips show he began loading his truck.

"(Deductions for Lunch Time)

"Defendant's employees driving or helping on trucks picking up freight and making deliveries frequently were given assignments necessitating their being away from the warehouse with their trucks for several consecutive hours. If employees were absent approximately six or eight consecutive hours, as shown by their time cards, the noon hour being one of these hours, they were docked thirty minutes for lunch; if they were absent a greater number of hours, in numerous instances they were docked one hour for lunch. Defendant's officials had given employees instructions that on such assignments they were responsible for defendant's trucks and their cargos, and that they were not to stop or leave the truck for personal purposes. In some instances employees, having their lunches with them, ate while driving or waiting at a customer's place of business for an opportunity to receive or deliver freight; in other instances employees had no lunch nor took any time off for lunch. Employees on occasions complained to defendant's timekeeper about being docked for lunch time not taken by them. Occasionally, the timekeeper would advise employees that he would rectify the situation, without doing so; on other occasions he failed or refused to do anything about it. Employees were not permitted to punch their own time cards."

We think the parallels to the instant case in *Dunbar* *Transfer* are remarkably close. Other cases in the field [of w]aiting time are: *Armour & Co. v. Wantock,* 323 [U]S 126, 89 L. Ed. 118, 65 S.C. 165, and *Skidmore v.* *Swift & Co.,* 323 US 134, 89 L. Ed. 124, 65 S.C. 161,

and particularly the annotations immediately follow-ing in the Law Edition volume.

It is immaterial that appellants put up with ap-pellee's conduct with respect to waiting time. Th Court well said in *Travis v. Ray*, 41 F. Supp. 6 at pag 8:

> "The evidence shows that the plaintiff volu-tarily agreed that his compensation be paid the form of commissions which necessarily mean that it would vary in amount from week to week that the plaintiff computed the amount that h was entitled to under his contract and receive payment in full from the defendant; and that n claim was made at the time that he was entitle to any additional compensation. But such a co-tract of employment and such a method of pay-ment does not remove the case from the provision of the statute. The statute is mandatory upon th employer, not permissive. When the law becam effective, it imposed the duty upon the employe to pay the employee the minimum wage provide regardless of the method of making the paymen The compensation paid must total the sum of hours worked times the minimum rate per hou for the period under consideration, regardless of whether it was paid in the form of a weekly wag or a commission. The emphasis of the statu is upon the amount paid not the method by whic it is paid. Neither the employer nor the employe have the right to agree by contract that th amount actually paid and received shall be les than the minimum amount specified by the statut The statute imposes a minimum which must b complied with. *Williams v. Jacksonville Termin*

Co., supra; *Morgan v. Atlantic Coast Line R. Co.*, D. C., 32 F. Supp. 617."

his Court itself has earlier insisted on "economic ity" in applying the provisions of the act. *stover v. Stockholders Publishing Co.*, 237 F. 2d And it has been said that the Fair Labor Stand-s Act should be interpreted in the light of the iderlying economic realities". *Rutherford Food p. v. McComb*, 331 US 722 at 727, 91 L. Ed. 1772, S.C. 1473; *Bumpus v. Continental Baking*, 124 F. 549 at 551.

Ve respectfully urge that economic reality will have 1 entirely ignored if this judgment stands. A man-cturer of specialty items, whose factory can be run st economically only when he receives a specific er justifying a production run, could make non-se out of the Fair Labor Standards Act. He could e on his payroll three times as many employees as actually needed and then instruct them as follows: 'hen we do not have a production run going, your sence here is purely voluntary; indeed, you are to come and go as you please. However, those o are at their machines on the line at the time that roduction order arrives at the factory will, for the st part, be the people who will be employed and d for the work done during the production run." rely it is self-evident that workers would be on the hour after hour waiting to be there when the rk came in. The manufacturer could have instant duction and economical production, but he would

have it at the cost of insufferable hardship. Ev more pertinently, he would have rendered a mocke of the Fair Labor Standards Act.

Finally, the case of *Goldberg v. Harold Gable,* 5 Labor Cases 41,352 (we can find no Fed. Supp. cit- tion), is worth quoting in full because the distincti between the two cases so precisely defines our poi on this appeal:

> "Findings of Fact.
>
> 1. The Court finds that there is jurisdicti in the Federal Court for the issues and parti involved in the above entitled matters.
>
> 2. The Court finds that the defendant w engaged in the business of operating an oil w servicing company; that such business is carri on by the operation of a well servicing unit a a crew usually of four men; that the parties whose behalf the suits were brought were former employees of various crews employed the defendant.
>
> 3. The Court finds that the method of t operation of the defendant's business during t times involved was to require all employees report in to the office of the company at 7:0 o'clock in the morning; that they could and us ally did appear personally, but on occasions call in by phone to report to the company at 7:0 o'clock. If there was then work to be done, t crew left and were paid by the hour for the wo accomplished. In the event there was no work 7:00 o'clock, the men were allowed to come a go as they pleased, subject, however, to the r

quirement that they advise the company where they could be reached, either personally or by phone. The Court further finds that the purpose of such requirement was to be able to locate the crew in the event employment was secured during the day.

That after 3:00 o'clock p.m. the requirement that they leave their telephone number or instructions as to the place they could be located was no longer required.

4. The Court finds that because of the nature of the work and by reason of the fact that the employees could not be assured of a job or call on each day, and in order to retain the services of experienced men upon a crew, the defendant guaranteed a 40 hour week to all employees. That such guarantee was applicable, however, only in the event the men reported and were available as required. The Court further finds that under the evidence the employees were not required to stay upon the employer's premises, but could come and go wherever and whenever they desire, so long as they were available as above set forth.

5. The fact issue to be determined by the Court is whether the men were "employed to wait, or waiting to be employed" during those periods between 7:00 o'clock in the morning and 3:00 o'clock p.m. in the afternoon during which time no work jobs were available to the company. The Court further finds as a matter of fact that the employees were waiting to be employed, and were not employed to wait, and that such time was not compensable time, other than covered by the 40 hour guarantee."

"Conclusions of Law.

The Court concludes as a matter of law:

1. That there is jurisdiction in the Fede[illegible] Court as to the issues and parties involved in [illegible] above entitled matters.

2. That the time spent by the employees [illegible]tween 7:00 o'clock a.m. and 3:00 o'clock p.m. [illegible] times when there were no work jobs available [illegible] the company were not compensable hours oth[illegible] than as such hours were legally included in [illegible] 40-hour guarantee, providing the employees we[illegible] available for work when called.

3. Judgment should be rendered for [illegible] defendant in each instance, and against the pla[illegible]tiff."

The crucial distinction, of course, is that in the ca[illegible] just quoted and cited, the economic coercion of m[illegible] likelihood of work in the event men were present [illegible] the premises was *totally absent,* whereas in the pres[illegible] case its presence is uncontroverted. Moreover, the 7 [illegible] a.m. "show-up" in the cited case was fully comp[illegible]sated by the guarantee of a 40-hour week to all e[illegible]ployees. There was no such guarantee in the pres[illegible] case at all.

CONCLUSION

It as been said that the Fair Labor Standards Act a medial piece of social legislation with a humani-ia end in view and therefore it is to be construed erlly. *Mitchell v. Loveland, McGohe & Assoc.,* 358 97 at 211, 3 L. Ed. 2d 243, 79 S.C. 260. But we spectfully that liberal construction is not needed re Simply normal, reasonable construction of the t equires that this judgment be reversed and re-ned with instructions to make findings consistent th he holding that appellants' waiting time should fly compensated.

Ded, Bakersfield, California,
January 16, 1968.

Respectfully submitted,
Di Giorgio, Davis, Nairn & Klein,
By Thomas R. Davis,
Attorneys for Appellants.

Certificate of Counsel

I ertify that in connection with the preparation of is rief, I have examined Rules 18, 19 and 39 of the nid States Court of Appeals for the Ninth Cir-it and that, in my opinion, the foregoing brief is in ll ompliance with those rules.

Thomas R. Davis.

No. 22,042

United States Court of Appeals
For the Ninth Circuit

SIDNEY L. IRWIN, RAY LESTER LONG, SHERRILL LONG, ALAN DUANE LUTHER, MELVIN LONG, WAYNE KING and HARRY EDWARD ALLEN,

Appellants,

vs.

BOB CLARK, doing business as Oilfield Vacuum Service,

Appellee.

APPELLEE'S BRIEF

DOTY, QUINLAN & KERSHAW,
2409 Merced Street,
Fresno, California 93721,
Attorneys for Appellee.

ERNAU-WALSH PRINTING CO., SAN FRANCISCO, CALIFORNIA

Subject Index

Table of Authorities Cited

Statutes

Miscellaneous

No. 22,042

United States Court of Appeals
For the Ninth Circuit

DNEY L. IRWIN, RAY LESTER LONG, SHER-
RIL LONG, ALAN DUANE LUTHER, MEL-
VI LONG, WAYNE KING and HARRY
EWARD ALLEN,

Appellants,

vs.

B CLARK, doing business as Oilfield
Vcuum Service,

Appellee.

APPELLEE'S BRIEF

JURISDICTIONAL STATEMENT

Tls action arises by virtue of 29 U.S.C. Sections o 219 under the Fair Labor Standards Act, a of the United States regulating interstate comre, and jurisdiction is conferred by the provisions 2 U.S.C. 1337.

STATEMENT OF THE CASE

Apellants were truck drivers employed by appellee o was engaged in the oil field service business. enature of appellee's business was that employees

were only able to perform services for appellee's c
tomers during periods when the peculiar necessi
of oil well production, drilling, or related activi
required the presence of equipment of the type ow
and furnished by appellee. There were, howe
periods of time during the day when it was n
likely that jobs would come in. (R. 97, Finding
10.) Appellants, as well as the remainder of ap
lee's employees, were subject to call for employm
24 hours a day. All of appellants were paid for
hours actually worked at straight time or overt
rates, in accordance with the provisions of the F
Labor Standards Act.

Appellants, in the District Court, sought comp
sation for "waiting time" for certain hours, Mon
through Friday, while they claimed they were on
pellee's premises waiting for jobs to come in and
accordingly dispatched. They claimed that they w
entitled to compensation for the "waiting time" in
much as they were required by appellee to be at
remain on the premises of appellee and, more
cently, that their being there was the result of "e
nomic reality."

Appellee's contention was that the employees w
voluntarily on the premises "waiting to be hired" a
that they were not "hired to wait;" therefore,
waiting time was not compensable.

The testimony was in conflict regarding whet
(except for the admitted period of time) appella
were ordered or directed to appear at all, at a
specific time, or to remain on the premises for a

ecic period of time. The District Court found in is onnection, on disputed testimony, as follows:

"11. Except during the period as hereinafter et forth, plaintiffs were not required to report or work at any given time and were free to go nd come as they pleased, as long as they left a elephone number where they could be called in le event they were needed." (R. 97, Finding No. 1.)

pllee admitted liability for the period that appelts were directed by appellee to remain on the erises, i.e., from June 25, 1965, to July 5, 1965, ase of the peculiar circumstance of the dispatcher n outside the State of California. The District u found that the waiting time was not hours of rl and thus not compensable. (R. 96-101, Findings lct and Conclusions of Law: Findings of Fact s 10, 11 and 18; Conclusions of Law Nos. 5, 6, 7, nd 9.)

Judgment was entered accordingly and appellants kto reverse that judgment.

ARGUMENT

1. THE ISSUE.

Te issue to be determined by the above entitled u is whether, under the facts found by the Trial de under the law applicable, appellants are enld to compensation as "hours worked" for waiting n spent voluntarily on the employer's premises rng periods of time in which no services were or ul be performed on behalf of appellee's customers.

2. THE FORCE OF THE FINDINGS OF FACT AND CONCLUSIONS OF LAW.

The principal issue presented to the trial co was whether or not appellants were required by rective of appellee to appear at appellee's prem at any particular time of day, and to remain th until any particular time of day. This issue was cided adversely to appellants. (R. 97, Findings Fact Nos. 10 and 11; R. 99, Conclusions of Law N 5, 6, 7, 8 and 9.)

On this issue, the Findings of Fact, Conclusions Law and Judgment of the Court are entitled to inferences reasonably to be drawn to support judgment and all intendments in favor of the ju ment.

Falstaff Brewing Corporation v. Thompson, F. 2d 301, 303 (1939, 8th Cir.):

> "In considering the question of the sufficie of the evidence, we examine it only for the p pose of determining whether or not there substantial evidence to sustain the verdict. (c tion) In considering it for that purpose, testimony in favor of plaintiff must be accep as true, and he is entitled to such reasona favorable inferences as may be fairly dra therefrom. . . ."

Superior Ins. Co. v. Miller, et al., 208 F. 2d 7 703 (1953, 10th Cir.):

> "All the facts that plaintiff-appellee's [M ler's] evidence reasonably tended to prove m be assumed to have been established and all inf ences fairly deductible from such facts m be drawn in her favor."

Where there is substantial evidence in the record spport the findings and conclusions drawn by the ia court, the appellate court will not re-evaluate the idnce.

F'CP 52a:

> ". . . findings of fact shall not be set aside unless clearly erroneous . . ."

Fgles Const. Co. v. McLaughlin Const. Co., 205 2 637, 639 (1953, 9th Cir.):

> ". . . when a finding is attached as being unupported, the power of the appellate court begins and ends with a determination as to whether, onsidering the whole record, there is substanial evidence which supports the conclusion eached by the trier of fact. When two or more nferences can be reasonably deduced from the acts, the reviewing court is without power to ubstitute its deductions for those of the trial ourt."

---

3. THE LAW OF THE CASE.

Prhaps the most succinct statement of the law apicble to the case is contained in the 1944 Supreme nt case, *Tennessee Coal & Iron Co. v. Miscoda cl 4,* 4 Wage & Hour Cases, 294, wherein the court d down the rule that working hours included all n during which

> ". . . an employee engaged in physical or mental exertion *controlled or required* by the employer and *pursued necessarily* and *primarily* for the benefit of the employer and his business."

The courts have consistently held that waiting t
is not compensable if the employees can use the w
ing time for their own purposes and are free to le
the premises.

Gifford v. Chapman, 6 Wage & Hour Cases 8
Dumas v. King, C.A. 8, 1946 (6 Wage & H
Cases 389);
Jackson v. Mid-Continental Petroleum Co
2 Wage & Hour Cases 540;
Thompson v. Dougherty, 1 Wage & Hour Ca
679;
Bulot v. Freeport Sulphur Co., 2 Wage & H
Cases 476;
Barker v. Georgia Power & Light Co., 2 W
& Hour Cases 486.

The testimony in the case was that the appella
"played cards," "drank coffee," "worked on their c
cars," "worked on a dune buggy," "went to ban
"went for coffee," "paid personal bills," "went hor
at various times, "generally wandered off leav
phone number," "slept," "went to barber shop," "t
care of personal business," "read magazines," "t
wife to doctor," "purchased gasoline," "went
hamburgers," "worked on his own ranch," "farme
(R.T. 58:15; 79:16-17; 99:21-22; 100:5; 195:19-
197:1-10; 285:7-8; 286:1-2; 290:17-25; 22:17-22; 2
1-4; 207:19-25; 208:1-2.)

It is submitted also that the interpretation a
bulletins published to the public generally by th
charged with the responsibility of enforcing the

entitled to great weight. The Wage and Hour
dministrator has issued Interpretive Bulletins de-
ir, for the purposes of the Act, hours of work.
r 785, issued by the Administrator January 11,
61 as amended August 18, 1961, and August 10,
65 found in the Wage and Hour Manual at 93:101,
ates in part at Section 785.14:

> "Whether waiting time is time worked under he act depends upon particular circumstances. The determination involves 'scrutiny and contruction of the agreements between particular parties, *appraisal of their practical construction f the working agreement by conduct,* consideration of the nature of the service, and its elation to the waiting time, and all of the circumstances. Facts may show that the employee was *engaged to wait,* or they may show that he *waited to be engaged.*' (*Skidmore v. Swift,* 323 U.S. 134 (1944).) Such questions 'must be determined in accordance with common sense and he general concept of work or employment.' (*Central Mo. Tel. Co. v. Conwell,* 170 F. 2d 641 C.A. 8, 1949).)" (Emphasis added.)

nd further, at Section 785.17:

> "An employee who is required to remain on call on the employer's premises or so close thereto hat he cannot use the time effectively for his own purposes is working while 'on call.' An employee who is not required to remain on the employer's premises but is merely required to leave word at his home or with company officials where he may be reached is not working while on call."

"Idle time, waiting to resume work during work day, may be excluded from working ti Waiting time will be considered off duty time not part of the employee's hours of work if h completely relieved of all duty and responsil ties and is permitted to leave the job and where he pleases."

In *Gifford v. Chapman*, 6 Wage & Hour Cases, the contractor had several drivers who fulfi schedules delivering mail under contract with federal government. The employees sued for wait time between trips. The court turned down this tention, stating that they were "not hired to w but were "waiting to be hired."

If an employee is relieved from duty and can the time for his own purposes, it is not conside as hours worked. Conversely, if he is required to main on the premises and cannot use the time for own purposes, he must be paid as he is hired to w

See:

Thompson v. Dougherty, 40 Fed. Supp. 278

Gifford v. Chapman, supra.

The facts in this case are similar to those of *Gor v. Patucah Manufacturing Co.*, 41 F. Supp. 980, 986, where the court said:

"Here the employees were free to report or to report for work as they saw fit, to leave at time without discrimination if they decided return for any work which was available, though they did stand and wait there was *no d to do so.*"

Te foregoing rules of law are established prinpls upon which employers, since the Act, have ovened their course of relations with their emoyes. They have the dignity of being the subject pblication by the Wage and Hour Division of the ovenment and the delineation by the Supreme Court te United States.

Te trial court applied the law of the case *as hereabve set forth* to its findings of fact and concluded atunder both, the time spent by appellants upon pplee's premises "waiting to be hired" was not mensable. Under the facts, it was not "physical rntal exertion, *controlled or required* by the emoyr," nor was it "pursued *necessarily or primarily* r he benefit of the employer and his business." It as n the nature of the time spent in the *Gordon v. atcah Manufacturing Co.* case, supra, i.e., although eydid stand and wait, "there was no duty to do so."

Te economic reality of the time spent is no difret or of no greater or lesser legal consequence an that spent by multitudes of employees "waiting b hired" in the hiring halls of the construction ac unions, shipping unions, longshoremen's unions, idothers too numerous to name. For whatever the irose of appellants' voluntary appearing and waitg,whether it be to secure a rush job, hours of work rnally more favorable, or perhaps to augment ei pay check, such motivations are not recognized he Act as those that are controlled or required ie employer or pursued necessarily and primarily rhe employer; rather, by their very nature they

exemplify those motivations which would be purs
necessarily and primarily for the benefit of ap
lants.

Notwithstanding the voluntary appearance of
pellants on occasions at appellee's premises, appe
sought to average the hours of work of their
ployees. (R. 97, Finding No. 10.) The efforts
appellee to average the hours of its drivers by call
up the man with the lowest hours is inconsistent w
the idea of being compelled to wait. While this
deavor could not be done with exactness because
the nature of the business and the overtime work
a review of the exhibits will indicate it was reas
ably successful.

---

4. APPELLANTS' POSITION.

Appellants do not seriously contest the findings
the trial court that the waiting time was volunta
They do not seriously contend that legal preced
applied to the findings of the trial court establis
the waiting time as voluntary. They propound
unique and novel theory; they seek judicial char
of a legislative act under which established rules
conduct of employer-employee relations have be
promulgated by decision and administrative ruling

By taking a word here and a phrase there, out
context from the court decisions, they attempt to su
port their novel theory. A carefull analysis of
cases cited by appellant reflects that they speak
the appellee rather than the appellants.

Wlling v. Dunbar Transfer and Storage, Inc., 7 ... Cases 64,599:

Inthis case,

Employees were required to get their trucks rom the garage, check the gas and tires, drive to e railway terminal, and wait for a loading pace, a freight car to be unloaded, or a checker be available before they could begin loading eir trucks. They received no credit or compen- ation for time so spent, being credited only with me spent after they started loading."

Alo:

Defendant's officials had given employees in- ructions that on such assignments they were esponsible for defendant's trucks and their argos, and that they were not to stop or leave e truck for personal purposes during lunch eriods."

e employees' activity above described was per- med at the direction of the employer. It was yscal or mental exertion controlled or required by e nployer and it was pursued necessarily and pri- ry for the benefit of the employer. Such em- yes were truly "hired to wait." The case supports plee's position, not appellant's.

Wstover v. Stockholders' Publishing Co., 237 F. 8:

Tis case holds that if employees are *terminated,* isplain from a standpoint of economic reality that e mployees lost their source of income and were, ain language, "out of a job." The issue in the

above cited case involved pay for work perfor
and had no relationship to waiting time.

Rutherford Food Corp. v. McComb, 331 U.S.

This case, under the Fair Labor Standards applied to piece rate employees working as boners a slaughter house and the question was whether employees were independent contractors or were ployees subject to the record keeping rquirem of the Fair Labor Standards Act. The court t held that they were employees and the court cluded that under the underlying "economic real led to a conclusion that the boners were emplo of the employer," thus subject to the Fair L Standards Act. This was the only question decid

Bumpus v. Continental Baking, 124 F. 2d 54 551:

This case involved only hours worked and did involve the question of waiting time.

Goldberg v. Harold Gable, 45 Labor Cases 41,3

The parties in this case agreed to a guarante forty hours a week. Insofar as the forty-hour gua teed work week is involved in this case, it is course, distinguishable from the case at bar, inasm as there is no such contractual relationship betw appellants and appellee. Insofar as the case cusses waiting time, however, it is four square for appellee. The court found that the employer " quired all employees to report in to the office of company at 7:00 o'clock in the morning" and they could, and usually did, appear personally. In

er there was no work, the men were allowed to m and go as they pleased. The court found, as a tter of fact, that the employees were "waiting to mployed" with respect to such waiting time and r not "employed to wait". As such, the time so er was not compensable. The court found, as a tter of law, "That the time spent by the employees tven 7:00 o'clock a.m. and 3:00 o'clock p.m. at nc when there were no work jobs available to the many were not compensable hours . . ." Judgment srendered for the (employer) defendant in each stace and against the plaintiff.

Te facts of the foregoing case are stronger than s of the instant case and yet the court found under w that the waiting time was not compensable.

Tere is no legal precedent cited for the theory of plants. We have exhaustively researched the ir and find no cases supporting such a rule of law.

CONCLUSION

Itis submitted that incentive, initiative, the desire r etter things, larger pay checks and the like, are mtimes compelling motivations for the conduct of ployees. They certainly encompass the realm of conomic realities." However, such "economic realies are not within the purview of the Fair Labor adards Act insofar as they are claimed to nitute a legal compulsion making non-working, nproductive, idle waiting time compensable. Em-

ployment arises from a contractual relationship a the mere desire to enter into a contract does create one. The act does not support appellants' sition nor does any other legal theory proposed.

It is respectfully submitted that the judgment the District Court be affirmed and this appeal missed.

Dated, Fresno, California,
February 8, 1968.

Doty, Quinlan & Kershaw
By Paul K. Doty,
Attorneys for Appellee.

Certificate of Counsel

I certify, in connection with the preparation of brief, I have examined Rules 18, 19 and 39 of United States Court of Appeals for the Ninth cuit, and that in my opinion, the foregoing brief in full compliance with those Rules.

Paul K. Doty,
Attorney for Appellee.

NO. 22043

United States Court of Appeals

FOR THE NINTH CIRCUIT

JEWELL JAMES WILLIAMS,

Appellant,

vs.

FRANK GIBSON, HENRY A. BONEY, ROBERT C. DENT, DE GRAFF AUSTIN and ROBERT C. COZENS as members of the Board of Supervisors of San Diego County (State of California) and JOSEPH C. O'CONNOR, Sheriff of San Diego County (State of California),

Appellees.

On Appeal From the United States District Court
For the Southern District of California

APPELLEES' BRIEF ON APPEAL

McINNIS, FOCHT & FITZGERALD
By LAURENCE L. PILLSBURY
1301 U. S. National Bank Building
San Diego, California 92101

Attorneys for Appellees

Acme Mailing & Offset Printing Co., 343 West "C" Street - 232-2126; 233-3196

SUBJECT INDEX

TABLE OF AUTHORITIES CITED

CASES

TABLE OF AUTHORITIES CITED (Continued)

Page

CASES

TABLE OF AUTHORITIES CITED (Continued)

CASES

CODES

TABLE OF AUTHORITIES CITED (Continued)

Page

CODES

IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

JAMES WILLIAMS,

Appellant,

vs.

IBSON, HENRY A. BONEY,
C. DENT, DE GRAFF AUSTIN
RT C. COZENS as members
ard of Supervisors of San Diego
tate of California) and JOSEPH
NOR, Sheriff of San Diego
tate of California),

Appellees.

On Appeal From the United States District Court
For the Southern District of California

APPELLEES' BRIEF ON APPEAL

A. STATEMENT REGARDING JURISDICTION

ppellees concur that there is jurisdiction on appeal, pursuant to 28 U. S. C. eview the action of the trial court. Appellees further concede that the t had limited jurisdiction to determine if the complaint stated a claim with- isdiction of the federal courts. Appellees, however, submit that the trial perly decided the jurisdictional question adversely to appellant and that its should be affirmed.

B. STATEMENT REGARDING PARTIES ON APPEAL

Counsel for appellees assumes that the appeal is taken against the me of the Board of Supervisors and the Sheriff of the County of San Diego in their capacities and not against the County of San Diego as a public entity. It may b counsel for appellees was mistaken in entering an appearance for the County o San Diego in the trial court, as it appears that the County was not named a defe but merely referred to somewhat redundantly in description of the Sheriff in th caption of the complaint [R. 1]. In any event, there is nothing in the notice o appeal [R. 44] or in appellant's opening brief to suggest that an appeal is take against the County of San Diego. On the contrary, appellant apparently concec that the County was not intended as a defendant [Appellant's Opening Brief, p. ll. 14-17]. Accordingly, only the members of the Board of Supervisors and t Sheriff of San Diego County appear on appeal.

C. ARGUMENT

1. THE ISSUE OF FEDERAL QUESTION JURISDICTION WAS NOT PRESENTED TO THE TRIAL COURT AND IS NOT OPEN ON APPEAL

The complaint alleged that jurisdiction was based on "Section 1346 of Title 28 of the United States Code and Chapter 171 of Title 28 of the United Sta Code, known as the Federal Tort Claims Act." Subdivision (b) of the former section gives the federal courts exclusive jurisdiction of tort actions for mone damages "against the United States" and Chapter 171 of Title 28 contains the substantive and procedural statutes concerning such actions. The trial court properly held [R. 40] that these sections of the Code do not confer jurisdictio

ral courts over individual defendants. This is true notwithstanding that they employees or agents of the United States. Benbow v. Wolf, 217 F. 2d 203 1954); United States v. Dooley, 231 F. 2d 423 (9th Cir. 1955); Radford v. tates, 264 F. 2d 709 (9th Cir. 1959); Pacific Freight Lines v. United States, 1 191 (9th Cir. 1956); Wasserman v. Perugini, 173 F. 2d 305 (2d Cir. 1949); v. U. S., 174 F. Supp. 377 (D. C. N. Y. 1959); Spears v. U. S., 266 F. Supp. W. Va. 1967). Appellant concedes this on appeal [Appellant's Opening . 8, ll. 14-16].

In a supplementary memorandum of points and authorities, appellant con- hat jurisdiction was based on diversity of citizenship [R. 30], as the com- sclosed that appellant was confined at the time the complaint was filed at a center for federal prisoners in Springfield, Missouri [R. 2, l. 32]. How- e complaint also alleged that appellant was a "resident and domiciliary of ıty of San Diego, State of California" [R. 2], and the trial court properly t appellant could not claim to be a citizen of Missouri, as the requisite intent a home there was lacking [R. 40].

It was also at least suggested by appellant in the trial court that jurisdiction based on California Penal Code, Section 4006, which provides in substance ounty Sheriff, to whose custody a prisoner is committed by process or order nited States, "is answerable for his safe keeping in the Courts of the United according to the laws thereof." An identical provision appeared in the orig- ifornia Code of 1872 as Section 1602 of the Penal Code. See In re Kays, 35 (S. D. Cal. 1888). This was long before the Federal Tort Claims Act and

the waiver of governmental immunity in California, and it is highly unlikely th this provision was ever intended to make the Sheriff subject to civil liability i tort according to the laws of the United States. More likely, it was an acknow ment that the Sheriff was duty bound to confine, produce and release prisoners the orders and process of the federal courts. In any event, the law appears s that state statutes are irrelevant to the question of jurisdiction. They can nei broaden nor limit the jurisdiction of the federal courts. Waterman v. Canal-Louisiana Bank & Trust Co., 30 S. Ct. 10, 215 U. S. 33, 54 L. Ed. 80 (1909) Penn. General Casualty Co. v. Commonwealth of Pennsylvania ex rel Schnade 55 S. Ct. 386, 294 U. S. 189, 79 L. Ed. 850 (1935).

Appellant did not contend in the trial court that "federal question" ju diction existed, nor was the appropriate code section [28 U. S. C. 1331] refer in the complaint or memorandum of points and authorities. Counsel did not a the issue, nor did the court consider it. Under the circumstances, appellees mit that this issue of federal question jurisdiction is not open on appeal. Rot Ltd. v. F. P. Bartlett & Co., 297 F. 2d 497 (1st Cir. 1962); Andrews v. Olin Mathieson Chemical Corp., 334 F. 2d 422 (8th Cir. 1964). Appellees submit this appeal does not present one of those exceptional cases where the rule sho be disregarded under the doctrine of Hormel v. Helvering, 61 S. Ct. 719, 312 552, 85 L. Ed. 1037 (1941).

2. APPELLANT'S ARGUMENT THAT FEDERAL QUESTION JURISDICTION EXISTS IGNORES THE FACT THAT THE TRIAL COURT TOOK JUDICIAL NOTICE OF CERTAIN FACTS

While the record is not perfectly clear, appellees submit that the only rpretation of the record is that the trial court took judicial notice of the fact appellant was confined in the San Diego County Jail at the time of the injury the County and its employees were independent contractors of the United caring for federal prisoners lodged in that facility. In dismissing the it, the trial court referred to [R. 39-40] a previous action filed by appellant he United States [Civil No. 3241-SD-K, appealed to the Ninth Circuit under 329] where plaintiff sought relief for the same incident. In that verified it, appellant alleged that he was confined in the San Diego County Jail at the he injury [see the court's order dismissing the earlier action which is part cord on the present appeal (R. 14-16)]. Moreover, the trial court noted, esent action, that it held, in dismissing the previous action, that the County mployees were independent contractors in caring for federal prisoners to a contract between the United States and the County of San Diego, executed e authority of 18 U.S.C. 4002 [R. 39-40]. That holding was based on t taking judicial notice of the relationship between the parties to that con- . p. 15, l. 31 to p. 16, l. 8].

Appellees submit that the trial court considered the previous verified com- s the court characterized the present complaint as alleging "in substance prisoner of the United States he was lodged in the San Diego County Jail" although the present complaint did not actually specify the place of

confinement. While appellant has not actually attacked the propriety of the tr court going beyond the "four corners" of the present complaint, appellees sub that this was proper, at least to resolve an uncertainty. Ramirez v. Fernand Co. v. Las Palmas Food Co., 146 F. Supp. 594 (D.C. Cal. 1956), aff'd 245 874, cert. den. 78 S.Ct. 384, 355 U.S. 927, 2 L. Ed.2d 357; Williams v. Mi Mining & Manufacturing Co., 14 F.R.D. 1 (D.C. Cal. 1953); Emmons v. Sm 58 F.Supp. 869 (D.C. Mich. 1944), aff'd 149 F.2d 869, cert. den. 66 S.Ct. 326 U.S. 746, 90 L.Ed. 446; Yudin v. Carroll, 57 F.Supp. 793 (D.C.Ark. 1

Similarly, appellees submit that the trial court took judicial notice o fact that the County and its employees were independent contractors of the Un States in caring for federal prisoners lodged in the San Diego County Jail. T the reason that the trial court considered the applicability of the state statute limitations and the claim filing requirements of the California Government Co [R. 41, ll. 2-11, and R. 42-43]. The court took judicial notice that appellee independent contractors and used the failure to allege compliance with the cla filing requirements as an alternative ground for its decision, applicable in th event it was mistaken in finding no jurisdiction based on diversity. Appellees mit that the court was proper in taking judicial notice of appellees' status as i pendent contractors. The provisions of similar contracts between the United Marshal for the Northern District of California and county authorities in that were judicially noticed in Evans v. Madigan, 154 F.Supp. 913, 916 (f.n. 2) (D Cal. 1959). The contracts are authorized by 18 U.S.C. 4002, which provides

Federal prisoners in state institutions; employment

For the purpose of providing suitable quarters for the safe-keeping, care, and subsistence of all persons held under authority of any enactment of Congress, the Director of the Bureau of Prisons may contract, for a period not exceeding three years, with the proper authorities of any State, Territory, or political subdivision thereof, for the imprisonment, subsistence, care, and proper employment of such persons.

Such Federal prisoners shall be employed only in the manufacture of articles for, the production of supplies for, the construction of public works for, and the maintenance and care of the institutions of, the State or political subdivision in which they are imprisoned.

The rates to be paid for the care and custody of said persons shall take into consideration the character of the quarters furnished, sanitary conditions, and quality of subsistence and may be such as will permit and encourage the proper authorities to provide reasonably decent, sanitary, and healthful quarters and subsistence for such persons.

nothing in this statute or any other statute which confers on any federal he right or privilege to direct or supervise the manner in which federal s confined to state jails are lodged, fed, disciplined, cared for, or controlled, they are accepted, released and produced at court in conformity with the nd process of the federal courts.

If appellees are independent contractors, the action against them is pu
a state tort claim and there is no basis for federal jurisdiction in the absence
diversity. Lipka v. United States, 369 F.2d 288 (2d Cir. 1966), cert. den. 87
Ct. 2061, 387 U.S. 935, 18 L.Ed.2d 997, rehearing den. 87 S.Ct. 2129, 388 U
925, 18 L.Ed.2d 1381; Dunn v. United States, 327 F.2d 59 (6th Cir. 1964); Di
United States, 296 F.2d 556 (8th Cir. 1961).

3. THE FEDERAL STATUTE RELIED ON BY APPELLANT TO ESTABLISH A DUTY OF CARE IS INAPPLICABLE

Appellant contends that federal question jurisdiction exists because a
are charged with a duty of care by 18 U.S.C. 4042 (quoted at pp. 16-17 of App
lant's Opening Brief). However, that statute specifically states that the duty a
to the Bureau of Prisons. There is nothing to suggest that the Bureau of Pris
has any management control or regulatory power over state prisons or jails o
that the same duties apply to sheriffs in charge of state jails lodging federal p
While appellant quotes at length from United States v. Muniz, 374 U.S. 162, 8
Ct. 1850 (1963), there is nothing in that case to suggest that 18 U.S.C. 4042 i
posed a duty on state jailers in dealing with federal prisoners. Appellant's qu
tion from that case is addressed to the problem which the court anticipated in
arising from the federal prisons located in the various states in view of the fac
that the Federal Tort Claims Act makes the question of liability depend largely
the law of the state where the act or omission occurred and yet there is consid
variance as to the immunities and liabilities applicable to prison officials unde
laws of the various states.

4. THE CASE DOES NOT PRESENT A FEDERAL QUESTION REQUIRING TRIAL

Appellant apparently contends on appeal that "federal question" jurisdiction cause the duty of care on which the action is based is established by a tatute and there is a question as to whether or not appellees are federal ｪs. However, as pointed out in the previous section of this brief, the n which appellant relies to establish a duty of care appears on its face to y inapplicable to state jailers holding federal prisoners. Hence, assuming estion of interpretation or construction of the scope of that statute was d by the complaint, and assuming further that such a question was sufficient "federal question" jurisdiction, the question was in effect decided adverse- ellant in the initial stage of determining whether the court had jurisdiction. s concede, as they must, that the trial court had jurisdiction to decide all rtaining to jurisdiction.

The only other federal question supposedly raised by the complaint is the of whether appellees are federal employees or independent contractors. that this is a question of federal law. [<u>Fisher v. United States</u>, 356 F. 2d Cir. 1966); <u>Blackwell v. United States</u>, 321 F. 2d 96 (5th Cir. 1963); <u>United States</u>, 311 F. 2d 604 (10th Cir. 1962), <u>cert. den</u>. 83 S. Ct. 1300, 911, 10 L. Ed. 2d 412], but local rules of <u>respondeat superior</u> apply. <u>o v. United States</u>, 231 F. Supp. 805 (D.C. Nev. 1964); <u>Calloway v. Garber</u>, 171 (9th Cir. 1961), <u>cert. den</u>. 82 S. Ct. 120, 368 U.S. 874, 7 L. Ed. 2d <u>r v. United States</u>, 212 F. Supp. 95 (D.C.N.Y. 1962), <u>aff'd</u> 332 F. 2d 629. in, appellees submit that the question was properly decided by the court in

resolving jurisdiction and there is no further federal controversy to decide.

However, even if the trial court could not properly decide the issue basis of judicial notice, appellees submit that the question as to whether appe are employees or independent contractors is not sufficient to raise federal qu jurisdiction. The rule as stated by Justice Cardozo in Gully v. First Nationa 57 S. Ct. 96, 299 U.S. 109, 81 L. Ed 70 (1936) is:

> To bring a case within the statute, a right or immunity created b the Constitution or laws of the United States must be an element, and an essential one, of the plaintiff's cause of action . . . . The right or immunity must be such that it will be supported if the Constitution or laws of the United States are given one construction or effect, and defeated if they receive another.

The federal statute defining "federal employees" [28 U.S.C. 2671] of course no rights or immunities. Moreover, while there may be a question of applyi statute to the facts to determine if appellees are employees or independent co tractors, neither the complaint nor the case as a whole presents a question a validity or construction of that statute. Accordingly, federal question jurisdi does not exist. The fact that it may be necessary in the course of litigation t strue or apply provisions of the Constitution or a statute is not sufficient. Pi Jordan, 333 F. 2d 951 (9th Cir. 1964), cert. den. 85 S. Ct., 664, 379 U.S. 97 L. Ed. 2d 565, rehearing den. 85 S. Ct. 884, 380 U.S. 927, 13 L. Ed. 2d 814. right, immunity, or claim must be based directly on the federal statute or la question [Johnston v. Byrd, 354 F. 2d 982, 984 (5th Cir. 1965)] and there mu

ıtial dispute as to the validity or construction of that law. Shulthis v. Mc-
,32 S. Ct. 704, 706, 225 U.S. 561, 569, 56 L. Ed. 1205 (1912); Oppenheim
ng, 368 F. 2d 516 (10th Cir. 1966), cert. den. 87 S. Ct. 1357, 386 U.S.
L. Ed. 2d 441; Wheeldin v. Wheeler, 83 S. Ct. 1441, 373 U.S. 647, 10 L.
5 (1963); Martin v. Wyzanski, 262 F. Supp. 925, 928 (D.C. Mass. 1967).

5. THE APPLICABILITY OF THE CALIFORNIA CLAIMS PROCEDURE

Appellees, of course, concede that the claims procedure set forth in the
ıa Government Code [Sections 810 through 996.6, particularly Sections
. 6 and 950.2] is totally inapplicable if the tortious conduct alleged is purely
city as an employee of the United States. On the other hand, if the acts or
s complained of were in the course and scope of appellees' capacity as
ficials, although acting at the same time as independent contractors of the
overnment, the claims procedure is clearly applicable. Compliance with
ıs procedure is a condition precedent to the accrual of a right of action in
. N.V. Philips' Gloeilampenfabrieken v. Atomic Energy Commission, 316
, 114 U.S. App. D.C. 400 (1963)] and was imposed as an incident of the
sovereign immunity. Compliance is not simply a matter of state court
ıe.

The complaint as framed alleges that appellees were federal employees
. 8-11] as well as County officials [R. p. 1, l. 29 to p. 2, l. 7]. Appellees
ıat if they were acting in a dual capacity, the state claims procedure should
h respect to the liability of individuals. The Federal Tort Claims Act
C. 2671 et seq] and 28 U.S.C. 1346(b) do not purport to waive immunity

or impose liability on individuals [Spears v. U.S., 266 F.Supp. 22 (D.C.W.V
1967); Chafin v. Pratt, 358 F.2d 349 (C.A. Ga. 1966); Gamage v. United Stat
217 F.Supp. 381 (D.C. Cal. 1962)] but only on the part of the United States.
liability of individuals per se was unaffected, and should continue to be based
state substantive law, including conditions imposed on causes of action by the
[Allen v. United States, 338 F.2d 160 (9th Cir. 1964); Kenney v. Trinidad Co
349 F.2d 832 (5th Cir. 1965) cert. den. 86 S.Ct. 652, 382 U.S. 1030]. Acco
ly, even if the court could not take judicial notice of appellees' status as inde
contractors, the decision should be affirmed on the ground that the complaint
alleged that appellees were both County officials and federal employees, faile
state a claim on which relief could be granted.

D. CONCLUSION

For the reasons stated, appellees respectfully submit that the decis
the trial court must be affirmed.

Respectfully submitted,

McINNIS, FOCHT & FITZGERALD

By /s/ LAURENCE L. PILLSBURY

Attorneys for Appellees

CERTIFICATE (Rule 18. 2(g))

certify that, in connection with the preparation of this brief, I have Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit in my opinion, the foregoing brief is in full compliance with those rules, to time.

McINNIS, FOCHT & FITZGERALD

By /s/ LAURENCE L. PILLSBURY

Attorneys for Appellees

No. 22,043

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

JEWELL JAMES WILLIAMS,

Appellant,

v.

FRANK GIBSON, HENRY A. BONEY, ROBERT C. DENT, DE GRAFF AUSTIN and ROBERT C. COZENS, as members of the Board of Supervisors of San Diego County (State of California) and JOSEPH C. O'CONNOR, Sheriff of San Diego County (State of California),

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

EDWIN L. WEISL, Jr.,
Assistant Attorney General,

EDWIN L. MILLER, Jr.,
United States Attorney,

JOHN C. ELDRIDGE,
ROBERT V. ZENER,
Attorneys,
Department of Justice,
Washington, D. C. 20530.

INDEX

CITATIONS

:

Cases (Cont'd):

Cases (Cont'd): Page

Pa

Cases (Cont'd):

Statutes:

Miscellaneous:

Page

cellaneous (Cont'd):

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 22,043

JEWELL JAMES WILLIAMS,

Appellant,

v.

FRANK GIBSON, HENRY A. BONEY, ROBERT C. DENT, DE GRAFF AUSTIN and ROBERT C. COZENS, as members of the Board of Supervisors of San Diego County (State of California) and JOSEPH C. O'CONNOR, Sheriff of San Diego County (State of California),

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

PRELIMINARY STATEMENT

This brief is filed on behalf of the United States as us curiae, pursuant to the Court's order of April 25, 1968.

STATEMENT OF ISSUES PRESENTED FOR REVIEW

1. Whether 18 U.S.C. 4042 -- which charges the Bureau risons with the duty of providing suitable quarters for

federal prisoners -- creates a federal claim against individu state or local jailers charged with the custody of federal pr oners under contract with the Bureau of Prisons.

2. Whether the district court was required, under the doctrine of pendent jurisdiction, to assume jurisdiction over the prisoner's state claim.

3. Whether the Sheriff of San Diego County and the Cou Board of Supervisors are "employees" of the United States wi respect to federal prisoners in the Sheriff's custody.

STATEMENT OF THE CASE

This is a suit by a prisoner who, at the time the suit arose, was in the custody of the San Diego County Sheriff awaiting trial of a federal charge (R. 2). Defendants are t San Diego County Sheriff, the members of the Board of Supervisors of San Diego County, and the United States (R. 1-2). The amended complaint alleges that defendants "did negligent perform their duty of providing for the safekeeping, care an protection of plaintiff and as a direct and proximate result of said negligence, plaintiff was severely and permanently injured." (R. 2). The district court dismissed the action as to all defendants other than the United States, on the ground that there was no diversity of citizenship (R. 39-41) The court also noted that the complaint did not allege the filing of an administrative claim, required by California la as a prerequisite to a tort suit against a state or local of- ficial (R. 42-43). This appeal followed.

In a separate suit against the United States under the [Feder]al Tort Claims Act, plaintiff charged negligent super[visi]on by the Sheriff of San Diego County, as a result of [which] plaintiff was assaulted and injured by a fellow prisoner [(R.] 14-16). The district court dismissed this complaint on [the] ground that the United States is not liable under the Tort [Clai]ms Act for the acts of the San Diego County Sheriff:

> This Court takes judicial notice of the fact that persons in custody of the United States are lodged in the custody of the San Diego County Jail in accordance with the terms of a contract between the two governmental bodies. Under that contract the San Diego County Jail and its employees are independent contractors, and not employees of the United States. The United States is not liable for the alleged negligence of an independent contractor.

[(R.] 16). An appeal followed. This Court held that the dis[miss]al of the complaint was not a dismissal of the action and [acco]rdingly was not appealable; it directed the district cou[rt to] grant leave to amend the complaint. Williams v. United [Sta]tes, 389 F. 2d 35. Plaintiff's time to file an amended [com]plaint in that case has been extended until the dispositi[on of] the instant appeal.

STATUTES INVOLVED

28 U.S.C. 1331 provides in relevant part:

> The district courts shall have original jurisdiction of all civil actions wherein the matter in controversy exceeds the sum or value of $10,000 exclusive of interest and costs, and arises under the Constitution, laws, or treaties of the United States.

18 U.S.C. 4002 provides in relevant part:

> For the purpose of providing suitable quarters for the safekeeping, care and subsistence of all persons held under authority of any enactment of Congress, the Director of the Bureau of Prisons may contract, for a period not exceeding three years, with the proper authorities of any State, Territory, or political subdivision thereof, for the imprisonment, subsistence, care, and proper employment of such persons.
>
> * * * * *
>
> The rates to be paid for the care and custody of said persons shall take into consideration the character of the quarters furnished, sanitary conditions, and quality of subsistence and may be such as will permit and encourage the proper authorities to provide reasonably decent, sanitary, and healthful quarters and subsistence for such persons.

18 U.S.C. 4042 provides in relevant part:

> The Bureau of Prisons, under the direction of the Attorney General, shall —
>
> (1) have charge of the management and regulation of all Federal penal and correctional institutions;
>
> (2) provide suitable quarters and provide for the safekeeping, care, and subsistence of all persons charged with or convicted of offenses against the United States, or held as witnesses or otherwise;
>
> (3) provide for the protection, instruction, and discipline of all persons charged with or convicted of offenses against the United States.

The Federal Tort Claims Act, 28 U.S.C. 2671, provides in

vant part:

> As used in this chapter and sections 1346(b) and 2401(b) of this title, the term —
>
> "Federal agency" includes the executive departments and independent establishment of the United States, and corporations primarily acting as, instrumentalities or agencies of the United States but does not include any contractor with the United States.
>
> "Employee of the government" includes officers or employees of any federal agency, members of the military or naval forces of the United States, and persons acting on behalf of a federal agency in an official capacity, temporarily or permanently in the service of the United States, whether with or without compensation.

ARGUMENT

Summary

1. The complaint did not state a claim against the San
go County officials as to which the district court had
sdiction, under 28 U.S.C. 1331, to grant relief. The al-
tions of the complaint amount only to an action for neg-
nce under state law. The prisoner's reliance on 18 U.S.C.
2 does not establish federal question jurisdiction. That
tute merely states the duty of the Bureau of Prisons to
vide suitable custody of federal prisoners. As such, it
simply a statute delineating the duties and responsibilities
a federal agency. It was not intended to create a federal
se of action against individual jailers -- be they employees

of the Bureau of Prisons or independent contractors -- for failure to provide adequate custody. Nor is there any general doctrine which brings into the federal courts actions against individual federal employees or government contractors for failure to fulfill the duties of the federal agency which employs them, or contracts with them. Wheeldin v. Wheeler, 373 U.S. 647.

2. The district court did have jurisdiction to determine whether the complaint stated a federal claim. However, this was not sufficient to require the district court to assume jurisdiction over the state negligence claim under the doctrine of pendent jurisdiction. That doctrine does not require a district court to hold a trial on a state claim where federal jurisdiction in a case was assumed only for purposes of dismissing the purported federal claim on the pleadings.

3. The Sheriff and the members of the Board of Supervisors of San Diego County are not employees of the United States for purposes of the Tort Claims Act. The provision of the Act which defines "employees" to include "persons acting on behalf of a federal agency in an official capacity" was intended to refer to persons rendering service to the government on a temporary basis, or without compensation or for a nominal salary, as, for example, the "dollar a year man." Appellant's interpretation of this language would cover virtually any government contractor, since government contractors generally perform activities which are delegated by statute to

ontracting federal agency. Such a result would be comly at variance with the basic purpose of the Federal Tort s Act, which is to render the Government liable in geny the same circumstances as a private employer is liable state law for the torts of his employees.

I.

18 U.S.C. 4042 MERELY SPECIFIES THE RESPONSIBILITIES OF THE BUREAU OF PRISONS; IT DOES NOT CREATE A FEDERAL CAUSE OF ACTION FOR DAMAGES AGAINST INDIVIDUAL JAILERS.

Although his primary contention in the district court was there was diversity jurisdiction, the prisoner has aban- that point on appeal and now contends that federal juris- on existed because a federal question was raised under S.C. 4042. That statute provides that "[t]he Bureau of ns, under the direction of the Attorney General, shall provide suitable quarters and provide for the safekeep- care, and subsistence of all persons charged with or con- d of offenses against the United States." The Bureau is charged with the duty of providing for "the protection, uction, and discipline" of such persons. Id. The com- t charged that appellees failed to comply with the statute, t is contended that this allegation conferred federal ion jurisdiction under 28 U.S.C. 1331.[1/]

The prisoner's complaint and his briefs in the district did not cite 28 U.S.C. 1331 as a basis for jurisdiction. ave to the briefs of the parties the question of whether risoner may raise the issue of federal question juris- on on appeal.

In our view, 18 U.S.C. 4042 was designed to delineate the duties and responsibilities of a federal agency; it was not designed to create a federal cause of action against either individual employees of that agency, or against persons with whom the agency might enter into contracts. There are, of course, many statutes delineating the duties and responsibilities of the various federal agencies. But we are unaware of any authority construing such a statute to give a federal caus of action against federal employees -- or against persons contracting with the federal agency -- to recover damages on account of failure by the employee or the contractor to fulfil the statutory duties of the agency. Accordingly, the complair failed to state a claim as to which the district court had jurisdiction to grant relief under 28 U.S.C. 1331. 2/

2/ Of course, there is federal question jurisdiction under 2 1331 to decide whether the prisoner has stated a federal cause of action. Bell v. Hood, 327 U.S. 678. However, dismissal is required if no federal cause of action is established, and there is no other basis for federal jurisdiction; for in that event the federal court has no jurisdiction to grant relief. See Montana-Dakota Co. v. Pub. Serv. Comm., 341 U.S. 246, 249-50: "Petitioner asserted a cause of action under the Power Act. To determine whether that claim is well founded, the District Court must take jurisdiction, whether its ultimate resolution is to be in the affirmative or the negative. If the complaint raises a federal question, the mere claim confers power to decide that it has no merit, as well as to decide that it has. * * * We think a direction to dismiss for want of jurisdiction was error * * * . However, it is clear that the reason underlying the Court of Appeals' decision was that no federal cause of action was established. If this was correct, we should sustain the judgment * * * . See also Blaney v. Florida National Bank at Orlando, 357 F. 2d 27, 28 (5th Cir. 1966); Farkas v. Texas Instrument, Inc., 375 F. 2d 629, 631-2 (5th Cir. 1967), certiorari denied, 389 U.S. 977; Moungey v. Brandt, 250 F. Supp. 445, 448 (W.D. Wisc. 1966).

For these reasons, we believe that the question of whether County Supervisors and the Sheriff are federal employees -- purposes of the Tort Claims Act or for any other purpose -- ot relevant to this case. Congress did not intend in 18 C. 4042 to create a federal cause of action against either oyees of the Bureau of Prisons, or persons contracting with Bureau of Prisons. Thus the district court had no juris-ion to grant relief against appellees, and that is the end he matter. However, since the question of appellees' ged "employee" status has been discussed in the briefs and f great importance to the government, we shall discuss it oint III <u>infra</u>.

1. It is clear that not every violation of a federal ute gives rise to a federal cause of action for damages nst the violator. This is true even though the federal ute may prescribe a standard that is relevant to a state e of action. Thus it has been held that, although the ral Safety Appliance Act prescribes applicable standards, igence actions alleging violation of these standards, ght by intrastate workers, motorists, or passengers, arise r state law, where there is no express statutory right ue in a federal court. <u>Moore</u> v. <u>C. & O. Ry. Co.</u>, 291 205; <u>Andersen</u> v. <u>Bingham & G. Ry. Co.</u>, 169 F. 2d 328 h Cir. 1948); see <u>Jacobson</u> v. <u>New York, N.H. & H. R.R.</u>, F. 2d 153, 157 (1st Cir. 1953). Nor can an ordinary neg-nce action by a person injured in an aircraft accident be

converted into a federal cause of action because the alleged negligence consisted of the pilot's violation of federal safe regulations issued under the Federal Aviation Act. Moungey v Brandt, 250 F. Supp. 445 (W.D. Wisc. 1966); cf. Boncek v. Pennsylvania R. Co., 105 F. Supp. 700 (D. N.J., 1952) (no fed eral question jurisdiction of negligence action alleging violation of federal regulations regarding handling of explosive contra: Neiswonger v. Goodyear Tire and Rubber Co., 35 F. 2d 761 (N.D. Ohio, 1929). Similarly, a state cause of action fo breach of trust is not converted into a federal action becaus it is alleged that the trustee, a national bank, violated fed eral regulations governing trust departments of national bank Blaney v. Florida National Bank at Orlando, 357 F. 2d 27 (5th Cir. 1966).3/ And, this Court has held that a trucker's opera tion without a certificate required under the federal Motor Carrier Act does not give rise to a federal cause of action o the part of a competing trucker, even though the violation of federal law may be relevant in a state action for unfair competition. Consolidated Freightways v. United Truck Lines, 21 F. 2d 543 (9th Cir. 1954), certiorari denied, 349 U.S. 905.

Thus it is not enough for the prisoner here to allege that there has been a violation of 18 U.S.C. 4042. He must also show that a federal cause of action was created by this

---

3/ See also, Oppenheim v. Sterling, 368 F. 2d 516 (10th Cir 1966), certiorari denied, 388 U.S. 1011, holding that there w no federal question jurisdiction of an action for conspiracy and breach of trust, despite an allegation that defendants ha engaged in fraudulent use of the mails in violation of federa statute.

te, conferring federal question jurisdiction on the fed- courts. The fact that the federal statute may supply a lard relevant to a determination of whether the Sheriff the Board of Supervisors were negligent under state law, not mean that in 18 U.S.C. 4042 Congress intended to con- on federal prisoners a federal right to sue individual em- ees or contractors for negligence.

2. Although there have been several cases implying fed- causes of action from the substantive provisions of a fed- statute,4/ we know of no case in which a federal action lamages has been implied against a federal employee or in- ndent contractor for failing to fulfill the duties of the oying or contracting federal agency. Indeed, in Wheeldin heeler, 373 U.S. 647, the Supreme Court refused to create leral cause of action for damages against an investigator the House Un-American Activities Committee who concededly l beyond his authority in issuing a subpoena to the plain-

> When it comes to suits for damages for abuse of power, federal officials are usually governed by local law. * * * Congress could, of course, provide otherwise, but it has not done so. Over the years, Congress has considered the problem of state civil and criminal actions against federal officials many times. * * * But no general statute making federal officers liable for acts committed "under color," but in violation, of their federal authority has been passed. Congress has provided for removal to a federal court of any state action, civil or criminal, against "[a]ny officer of the United States * * *, or

---

See generally Note, "Implying Civil Remedies from Federal latory Statutes," 77 Harv. L. Rev. 285 (1963).

> person acting under him, for any act under color of such office * * * ." 28 U.S.C. § 1442(a)(1). That state law governs the cause of action alleged is shown by the fact that removal is possible in a nondiversity case such as this one only because the interpretation of a federal defense makes the case one "arising under" the Constitution or laws of the United States. * * * We conclude, therefore, that it is not for us to fill any hiatus Congress has left in this area.

373 U.S. at 652. In so holding, the Supreme Court rejected th argument advanced in dissent that, since the federal employee had violated a federal statutory restriction on his authority a federal right of action for damages should be created. 373 U.S. at 661-63 (dissenting opinion of Brennan, J.). In Wheel the fact that the federal official had violated federal restr tions on his authority might well be relevant to a state acti for damages -- just as here, the standard of care set by 18 U.S.C. 4042 might be relevant to an action for negligence und state law. However, just as it was held in Wheeldin that the is no federal cause of action for abuse of power against a fe eral official who has violated a statutory restriction on his authority, so also must it be held here that there is no federal cause of action for negligence against federal officials alleged to have violated a statutory duty. 5/

5/ There are several cases holding that actions against federal officials and employees, alleging the commission of comm law torts in the course of official duty, do not come within federal question jurisdiction. Johnston v. Earle, 245 F. 2d 793 (9th Cir. 1957) (action against Internal Revenue Service employees for conversion); Viles v. Symes, 129 F. 2d 828 (10t Cir. 1942), certiorari denied, 317 U.S. 633 (action against federal judge and government attorneys for malicious (continu

Wheeldin v. Wheeler, supra, has also been applied in s involving the violation by independent contractors of es imposed by federal law. Thus in Farkas v. Texas Inment, Inc., 375 F. 2d 629 (5th Cir. 1967), certiorari ed, 389 U.S. 977, it was held that there is no federal e of action on the part of an employee of a government ractor to enforce the non-discrimination clauses of the ract, inserted pursuant to an Executive Order. And in l Services, Inc. v. Maintenance Inc., 361 F. 2d 86 (5th 1966), it was held that the losing bidder for a federal ract has no federal cause of action for loss of profits nst the prevailing bidder, despite the allegation that the ailing bidder obtained the contract in violation of fed- regulations. In both cases, the federal government had ght to enforce the contractor's federal obligations -- as here, the Bureau of Prisons may have a right to cancel contract with any state or local prison found to be in ation of 18 U.S.C. 4042. However, this does not mean the prisoner has a federal right to damages against in- dual officials for the contractor's breach of duty.

---

continued) prosecution and false imprisonment); Mathers & ers v. Urschel, 74 F. 2d 591 (10th Cir. 1935) (action nst United States Attorney and FBI agents for return of erty seized in connection with a federal arrest); Martin yzanski, 262 F. Supp. 925 (D. Mass. 1967) (suit against ral judge for libel); Mullins v. First National Exchange of Virginia, 275 F. Supp. 712 (W.D. Va. 1967) (action for ersion and interference with contractual rights against cials of Small Business Administration). It is well estab- ed that the fact that a case may be removable under 28 U.S.C. does not mean that the case may be brought originally in a ral court. Gay v. Ruff, 292 U.S. 25, 39.

3. Where a federal statute prescribing a substantive standard does not explicitly provide for a civil remedy, the Supreme Court has stated that "it is the duty of the courts to be alert to provide such remedies as are necessary to make effective the congressional purpose." J. I. Case Co. v. Bora 377 U.S. 426, 433. The statute on which the prisoner relies here to create a federal cause of action -- 18 U.S.C. 4042 -- was part of legislation passed in 1930 which established the Bureau of Prisons. 46 Stat. 325. The legislative history shows that the purpose of the statute was to centralize authority and responsibility for the conditions in federal prisons, and to give the Federal Government some authority to provide by contract for the proper treatment of federal prisoners in state jails. The legislation was proposed by the Department of Justice, which explained it in a memorandum reprinted in the committee reports (Sen. Rept. 533, 71st Cong., 2d Sess. at p. 2; H. Rept. 106, 71st Cong., 2d Sess., at p. 2 and quoted during the floor debate by the bill's sponsor (72 Cong. Rec. 2158 (Rep. Graham, Jan. 22, 1930)):

> At present there is no organization legally charged with the duty of administering the penal and correctional institutions of the Federal Government. Until very recently all matters connected with contracting for the care and subsistence of Federal prisoners and broad general questions connected with the administration of the Federal penal institutions were handled by the general agent of the Department of Justice. The penal institutions were, to all practical purposes, under the independent control of

the wardens. * * * Legislation is needed to establish a bureau which is definitely charged with the duty of supervising the care and treatment of Federal offenders. It is also needed to remove any question as to the extent of the control of the central office over the wardens and officers of the institutions. The first two sections of the proposed bill will accomplish this end.

One of the most perplexing problems facing the penal officials is how to provide for the safe-keeping, care, and subsistence of persons awaiting trial, held as witnesses, or serving short sentences. The Federal Government is now powerless to remedy the deplorable conditions of filth, contamination, and idleness which is present in most of the antiquated jails of the country, for it is wholly dependent upon the charity of the States. It is obliged to pay the States the rates they charge for boarding Federal prisoners, even though they may be exorbitant. * * *

It is doubtful if the Federal Government ought ever to have a complete system of jails paralleling similar institutions now found in the political subdivisions of the various States. It is possible, however, for the central Government to improve conditions by certain administrative revisions. * * *

first two sections of the resulting legislation established Bureau of Prisons and charged it with responsibility for safe-keeping, care, protection, instruction, and dis-ine" of federal prisoners. 46 Stat. 325.

Section 3 provided:

It shall be the duty of the Bureau of Prisons to provide suitable quarters for the safe-keeping, care, and subsistence of all persons convicted of offenses against the United States, charged with offenses against the United States, or held as witnesses or otherwise. For this purpose the Director of the Bureau of Prisons may contract, for a period not exceeding three

> years with the proper authorities of any State * * * for the imprisonment, subsistence, care, and proper employment of any person held under authority of any United States statute: * * * .

Ibid. The statute went on to provide that the rates to be paid shall "take into consideration the character of the qua furnished, sanitary conditions, and quality of subsistence", were to be "such as will permit and encourage the proper aut ities to provide reasonably decent, sanitary, and healthful quarters * * * ." Ibid. These provisions are now codified 18 U.S.C. 4002 and 4042.

It is apparent from this legislative history that the congressional purpose was to centralize control over the tre ment of federal prisoners. There is no suggestion in the debates or the committee reports of an intent to give prison a new federal cause of action for inadequate treatment. The statute was basically no different from any federal statute establishing a new agency of government and defining its dut and responsibilities. Certainly there is no general rule of law which confers a federal right of action on the part of person injured by a failure to fulfill federal statutory dut imposed on a federal agency, against the individual involved be he an employee of the agency or an independent contractor And there is nothing in 18 U.S.C. 4042 to suggest that there is something special about the Bureau of Prisons, which woul result in its employees and contractors being subject to a federal cause of action not available against other governme employees and contractors.

4. To the extent that 18 U.S.C. 4042 can be read to
.bit a congressional purpose to protect federal prisoners,
creation of a federal cause of action against the indi-
ıal jailer is not "necessary to make effective the congres-
ıal purpose." J. I. Case v. Borak, 377 U.S. 426, 433. For
er remedies exist to compensate the injured prisoner. If
jailer is a federal employee for purposes of the Tort
.ms Act, an action lies against the United States. United
es v. Muniz, 374 U.S. 150. If not, an action against the
.vidual jailer lies under the laws of many states. Hill v.
ry, 280 F. 2d 88 (8th Cir. 1958), certiorari denied, 364
875 (Missouri law); Indiana ex rel. Tyler v. Gobin, 94
48 (C. C. Ind. 1899); Asher v. Cabell, 50 Fed. 818 (5th
1892) (Texas law); Magenheimer v. State, 120 Ind. App.
90 N.E. 2d 813 (1950); Smith v. Miller, 241 Iowa 625, 40
. 2d 597 (1950); O'Dell v. Goodsell, 149 Neb. 261, 30
. 2d 906 (1948); Hixon v. Cupp. 5 Okla. 545, 49 Pac. 927
7); Kusah v. McCorkle, 100 Wash. 318, 170 Pac. 1023 (1918).
he present case, the prisoner has an action against either
County or the Sheriff under the California Tort Claims Act
963. Cal. Government Code, §§ 815.2, 820. Other states
allowed direct suit against the state or municipality
lf for prisoner injuries. Paige v. New York, 269 N.Y.
199 N.E. 617 (1936); Shields v. Durham, 118 N.C. 450,
.E. 794 (1896); Hargrove v. Cocoa Beach, 96 So. 2d 130
. 1957); Turner v. Peerless Ins. Co., 110 So. 2d 807 (La.
). See Note, 63 Yale L. J. 418, n. 52 (1954) (citing

Illinois case). Since these alternative remedies are avail-able, there is no reason to infer an additional federal reme

There are, to be sure, some states in which suits agair prison officials or the state or local government is not per mitted. See United States v. Muniz, 374 U.S. 150, 164. Hov ever, in such cases the state law reflects state policy rega ing the protection of public officials and the maintenance c discipline in state and local prisons; there is nothing in the legislative history of 18 U.S.C. 4042 to suggest a congr sional intent to override such state policies.

II.

WHERE A FEDERAL CLAIM IS DISMISSED ON THE PLEADINGS, PENDENT JURISDICTION DOES NOT REQUIRE TRIAL OF THE STATE CLAIM.

The prisoner concedes, as he must, that there is no pendent jurisdiction with respect to his action under the Tort Claims Act. Benbow v. Wolfe, 217 F. 2d 203 (9th Cir. 1954); Radford v. United States, 264 F. 2d 709 (5th Cir. 19 Wasserman v. Perugini, 173 F. 2d 305 (2d Cir. 1949). Howeve he contends that since the court had federal question jurisc to decide whether the complaint stated a federal cause of ac tion under 18 U.S.C. 4042, the doctrine of Hurn v. Oursler, 289 U.S. 238, required the district court to assume pendent

6/ Compare J. I. Case Co. v. Borak, 377 U.S. 426, where th Court concluded that alternative remedies were not adequate achieve the congressional purpose. The existence of adequat state remedies has been stressed as a ground for refusal to imply a federal cause of action from federal regulations. E v. Florida National Bank at Orlando, 357 F. 2d 27 (5th Cir. (federal regulation governing trust departments of national tinued)

isdiction over his state claim for negligence.

In Hurn v. Oursler, it was held that a federal court had isdiction over a claim for unfair competition under state joined with a federal claim for copyright infringement, n though the federal claim was dismissed on the merits. However, in Hurn v. Oursler, the district court held a trial on merits of the federal claim before dismissing it; and disition of the merits of the state claim was warranted on the is of the facts already tried in connection with the fedl claim. In subsequent cases, the courts have made it plain t Hurn v. Oursler will not be applied where assumption of isdiction over the state claim would require an additional al of facts not required for disposition of the federal im. Thus where the federal claim is dismissed on the pleads, the doctrine of pendent jurisdiction does not require the trict court to proceed with a trial of the state claim. sachusetts Universalist Convention v. Hildreth & Rogers , 183 F. 2d 497, 501 (1st Cir. 1950); Strachman v. Palmer, F. 2d 427, 433-34 (1st Cir. 1949) (Magruder, C. J., conring); State of Georgia v. Wenger, 187 F. 2d 285, 287-88

(continued) banks does not create federal cause of acn for breach of trust); Moungey v. Brandt, 250 F. Supp. (W.D. Wisc. 1966) (federal air safety regulations do not ate federal cause of action for negligence). See Note, plying Civil Remedies from Federal Regulatory Statutes," Harv. L. Rev. 285, 292, 294-5 (1963).

(7th Cir. 1951), certiorari denied 342 U.S. 822. As the court stated in Moungey v. Brandt, 250 F. Supp. 445, 454 (W.D. Wis. 1966): "this action has not reached the trial stage in federa court and * * * no economy in time or money, and no greater expedition, would be realized if this court were now to undert to deal with the possible [state] cause of action on the merit To hold that a federal claim which is dismissed on the pleadir requires trial of a state claim would truly be a case of "the tail wagging the dog." Such a result is not required by Hurn Oursler.

III.

THE DEFINITION OF "EMPLOYEE" IN THE FEDERAL TORT CLAIMS ACT DOES NOT ENCOMPASS INDEPENDENT CONTRACTORS

As noted above (at pp. 8-9), we do not believe that the question of whether the Sheriff and Supervisors of San Die County are "employees" of the United States for purposes of th custody of federal prisoners is relevant to this appeal. The sole question here is whether a federal claim has been stated against these parties under 18 U.S.C. 4042; and for the reasor we have outlined, we do not believe that statute creates a fed claim against any individual jailers, be they state or federal employees. However, since the question of appellees' status under the Federal Tort Claims Act has been briefed by the part we shall discuss it here.

In contending that appellees are "employees" under the Tort Claims Act, the prisoner does not, apparently, seek to establish that they fall within the traditional common-law tes

employment. See Restatement of Agency 2d, Section 220.
her, reliance is placed on the provision of the Tort Claims which includes in the definition of "employee" (for whose s the Act renders the government liable) "persons acting on alf of a federal agency in an official capacity, temporarily permanently in the service of the United States, whether with without compensation." 28 U.S.C. 2671. The argument, as we erstand it, is that even persons who are independent conctors within the common-law meaning of that term fall within statutory definition of "employee" of the United States, n they are carrying out a düty placed by statute on a federal ncy.

This argument runs contrary to all the decided cases on nt, which hold that the United States is not liable under the t Claims Act for the acts of common-law independent contracto k v. United States, 270 F. 2d 110 (9th Cir. 1959); Dushon v. ted States, 243 F. 2d 451 (9th Cir. 1957), certiorari denied U.S. 933; Dunn v. United States, 327 F. 2d 59 (6th Cir. 1964 her v. United States, 356 F. 2d 706 (6th Cir. 1966), certiora ied 385 U.S. 819; Strangi v. United States, 211 F. 2d 305 h Cir. 1954); Dixon v. United States, 296 F. 2d 556 (8th Cir. 1); United States v. Page, 350 F. 2d 28 (10th Cir. 1965), tiorari denied 382 U.S. 979. The fact that the independent tractor is performing a duty which is vested by statute in federal agency does not change the result. Indeed, this is case in virtually every independent contractor situation. s, for example, the independent contractor in Fisher v.

United States, supra, was engaged in delivery of mail, a duty vested by statute in the Post Office Department. Similarly, the independent contractor in Strangi v. United States, supra, was engaged in the construction of a dam, a duty vested by statute in the Corps of Engineers. See 211 F. 2d at 306 n. 3. Yet in both these cases it was held that the United States was not liable for the torts of the independent contractor.

Appellant argues that the Bureau of Prisons cannot be allowed to insulate itself from tort liability by contracting out its statutory duty of caring for federal prisoners. Yet the courts have unanimously rejected the contention that the government may be held liable for the torts of an independent contractor under a "non-delegable duty" theory. Dunn v. United States, supra; Dushon v. United States, supra; United States v. Page, supra.7/ Thus a federal agency may insulate the government from tort liability by contracting out its work -- unless, of course, in the selection of a contractor there is negligence for which recovery may be had under the Tort Claims Act. (There is no charge here of negligence in the Bureau of Prison's selection of the San Diego County Sheriff as a jailer for appellant.) The argument that a federal agency may not delegate its statutory duties to an independent contractor is especially weak in the instant case, since the statute here specifically authorizes the Bureau of Prisons to contract with state and local authorities for the custody of federal prisoners. 18 U.S.C. 4002.

7/ Indeed, the contention that the United States should be held liable for the torts of an independent contractor has been rejected even where extra-hazardous work was involved. United States v. Page, supra; Dunn v. United States, supra; Dushon v. United States, supra. Appellant does not, of course, claim that the custody of prisoners is extra-hazardous work.

The statutory language on which appellant relies-- defining
loyee" for purposes of the Tort Claims Act to include
sons acting on behalf of a federal agency in an official
city, temporarily or permanently in the service of the
ed States, whether with or without compensation" (28 U.S.C.
) -- was not designed to cover independent contractors. This
uage suggests nothing more than a Congressional purpose to
ude those persons voluntarily rendering service to the
rnment on a temporary basis, or without compensation or for
inal salary, as, for example, the "dollar a year man."
Gottlieb, The Federal Tort Claims Act -- A Statutory
rpretation, 35 Geo. L.J. 1, 11 n. 36 (1941). In explaining
identical language as contained in the definition of "employee"
tort claims bill introduced in 1942, Assistant Attorney
ral Shea stated that the definition would "cover air-raid
ens for instance, provided they are in the service of the
ed States and are acting within the scope of their official
ority on behalf of a Federal agency." Hearings, House
ittee on the Judiciary on H.R. 5373 and H.R. 6463, 77th Cong.
ess., at p. 16. The House Committee, accepting this inter-
ation, felt it necessary specifically to exclude air raid
ens and fire wardens from the bill it reported in 1942.8/

Recognizing that the Tort Claims Act as passed in 1946 was
culmination of years of legislative effort, the Supreme
t has drawn on the legislative history of bills in prior
s to interpret the Act. See United States v. Muniz, 374 U.S.
155-56; Dalehite v. United States, 346 U.S. 15, 26-30. In
ite, the Court relied heavily on the history of the bills
idered in 1942, including the hearings referred to in the
.

H.R. Rep. No. 2245, 77th Cong. 2d Sess., at p. 1. When the A was passed, in 1946, the concern for air raid wardens had, of course, passed, and thus this exception was not included. Ho ever, the Congressional concern with this type of worker unde scores Congress' understanding that the thrust of the statuto definition was to include individuals working for the governm in a status similar to that of regular employees.

Government liability under the Tort Claims Act is premis on the theory of respondeat superior -- a theory which has traditionally barred liability for the negligent acts of inde contractors. Moreover, the provision of the Act that the United States shall be liable "in the same manner and to the extent as a private individual under like circumstances" (28 2674) reflects the philosophy that, generally speaking, the United States has the liability of a private employer -- and private employers are not usually liable for the torts of independent contractors.9/ In addition, the provision of the explicitly excluding from the definition of "federal agency" "contractor with the United States" (28 U.S.C. 2671) reinforc the conclusion that the Act was not intended to render the government liable for the acts of independent contractors.

9/ Of course, the question of who is an employee for purpose of the Act is a federal rather than a state question, and thu it is possible for government liability to differ on this sco from the liability of a private employer under state law. Ho ever, the federal courts, in construing the Act's definition "employee", have generally followed common-law concepts. Brucker v. United States, 338 F. 2d 427, 428 n. 2 (9th Cir. 1 certiorari denied 381 U.S. 937.

lant's suggested construction of the Act would render the nment liable generally for the acts of its contractors, government contractors typically perform activities which ontracting federal agency is authorized or required by law rform. This construction would, accordingly, represent a al departure from the basic purpose of the Act to hold the nment to the respondeat superior liability of a private yer.

The use of state jails for the custody of federal prisoners from the first days of the Republic, and the Supreme Court considered the question of the relationship between the jailers and federal officials. In Randolph v. Donaldson, nch (13 U.S.) 76, the issue was whether a judgment creditor recover against a federal marshal for the escape of his ent debtor from a state prison, to which he had been tted after having been taken into custody by the marshal's y under process of a federal court. The Supreme Court held the marshal was not liable, on the ground that he did not in a respondeat superior relationship to the state jailer:

> The keeper of a state jail is neither in fact, nor in law, the deputy of the marshal. He is not appointed by, nor removable at the will of the marshal. When a prisoner is regularly committed to a state jail, by the marshal, he is no longer in the custody of the marshal, nor controllable by him. The marshal has no authority to command or direct the keeper, in respect to the nature of the imprisonment. The keeper becomes responsible for his own acts, and may expose himself to the 'pains and penalties' of [state] law.

nch (13 U.S.) at 86. Similarly here, the San Diego County ff is not appointed by nor removable by federal officials,

and he is responsible for his own acts under the California T
Claims Act (under which individual officials may be sued). C
Government Code § 820. To be sure, the 1930 legislation (discussed above at pp. 14-16 , supra) authorized the Burea of Prisons to provide by contract for the conditions of custo accorded to federal prisoners in state jails. However, this no different, for purposes of respondeat superior, from the general requirement of the Walsh-Healey Act that government contracts must include stipulations for safe working conditio of the contractor's employees (41 U.S.C. 35(e)); such stipula-tions have been held not to render the contractor an "employe for purposes of the Tort Claims Act. Strangi v. United State 211 F. 2d 305 (5th Cir. 1954); Dunn v. United States, 327 F. 59 (6th Cir. 1964). Since 1930, the holding of Randolph v. Donaldson, supra, has been followed in Optner v. Bolger, 95 F. 2d 241 (6th Cir. 1938). A contrary holding would rende the government liable for the acts of a vast number of its co-tractors, contrary to the terms and purpose of the Tort Claim

The opinion in Randolph v. Donaldson contains a dictum t "[f]or certain purposes, and to certain intents, the state ja lawfully used by the United States, may be deemed to be the jail of the United States, and that keeper to be the keeper c the United States." 9 Cranch (13 U.S.) at 86. However, as the holding of the case makes clear, respondeat superior liability is not one of the purposes for which the Sheriff of San Diego County may be deemed to be a "keeper of the United The dictum in Randolph v. Donaldson has been relied on to hol

te jailer answerable to a federal court for cruel and unusual ishment inflicted on a federal prisoner committed to his tody. In re Birdsong, 39 Fed. 599 (S.D. Ga. 1889). It has o been cited to support a holding that a state jailer is in tempt of a federal court for failure to confine a prisoner mitted to his jail by order of the federal court, where te law requires the acceptance of federal prisoners. parte Shores, 195 Fed. 627 (N.D. Iowa 1912). However, these dings merely represent a necessary exercise of power by the eral courts to protect the constitutional rights of prisoners, to effectuate orders of commitment issued by the federal rts. Nothing in these cases affects the question of the pondeat superior liability of the federal government.

In Reid v. Covert, 351 U.S. 487, 489-90, the Supreme Court d -- also in reliance on the dictum in Randolph v. Donaldson -- t the Superintendent of the District of Columbia jail is an ficer or employee" of the United States for purposes of the tute regarding direct appeals to the Supreme Court in cases which a district court has held an Act of Congress unconsti- ional. 28 U.S.C. 1252. (The statute applies only where e United States or any of its agencies or an officer or loyee thereof" is a party.) However, the Court pointed out t the Supreintendent was responsible to an officer selected the District of Columbia Board of Commissioners, which was turn appointed by the President. See 351 U.S. at 489. The Diego County Board of Supervisors is not, of course, ap- nted by any federal official. In addition, the Court in

Reid v. Covert stated that it would construe 28 U.S.C. 1252 i
accordance with the Congressional purpose to provide a "promp
review of the constitutionality of federal acts." 351 U.S. a
490, quoting Fleming v. Rhodes, 331 U.S. 100, 104. By contra
the definition of "employee" in the Tort Claims Act should be
construed in accordance with the Congressional purpose to sub
the United States generally to the liability of a private employer under state law -- a liability that does not extend the acts of independent contractors.

CONCLUSION

The judgment of the district court should be affirmed o
the ground that appellant has not stated a claim against the Sheriff of San Diego County and the County Board of Supervisors within the jurisdiction of the district court.

Respectfully submitted,

EDWIN L. WEISL, Jr.,
Assistant Attorney General

EDWIN L. MILLER, Jr.,
United States Attorney,

JOHN C. ELDRIDGE,
ROBERT V. ZENER,
Attorneys,
Department of Justice,
Washington, D. C. 20530.

SEPTEMBER 1968

CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of September, 1968, erved two copies of the foregoing Brief for the United States micus Curiae, by air mail, postage prepaid, upon counsel ollows:

McInnis, Focht & Fitzgerald, Esquires
1301 U.S. National Bank Building
San Diego, California 92101
Attorneys for Appellees

Dahlstrum, Walton & Butts,
Jack A. Dahlstrum and G. Merle
Bergman, Esquires
6331 Hollywood Boulevard
Suite 212
Hollywood, California 90028
Attorneys for Appellant

Bertram McLees, Jr., Esquire
County Counsel of San Diego County
Lloyd M. Harmon, Jr., Esquire
Deputy County Counsel
302 County Administration Center
San Diego, California 92101
Attorneys for Amicus Curiae County
of San Diego

Robert V. Zener

ROBERT V. ZENER
Attorney for United States
Amicus Curiae
Department of Justice
Washington, D. C. 20530.

NO. 22043

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

JEWELL JAMES WILLIAMS,

Appellant,

vs.

FRANK GIBSON, HENRY A. BONEY, ROBERT C. DENT, DE GRAFF AUSTIN and ROBERT C. COZENS as members of the Board of Supervisors of San Diego County (State of California) and JOSEPH C. O'CONNOR, Sheriff of San Diego County (State of California),

Appellees.

On Appeal From the United States District Court For the Southern District of California

BRIEF OF AMICUS CURIAE COUNTY OF SAN DIEGO IN SUPPORT OF POSITION OF APPELLEES OTHER THAN THE UNITED STATES OF AMERICA

BERTRAM McLEES, JR., County Counsel
of San Diego County
By LLOYD M. HARMON, JR., Deputy
302 County Administration Center
San Diego, California 92101

Attorneys for Amicus Curiae County
of San Diego

TOPICAL INDEX

TABLE OF AUTHORITIES CITED

CASES

TABLE OF AUTHORITIES CITED (cont.)

STATUTES

TABLE OF AUTHORITIES CITED (cont.)

OTHER AUTHORITIES

NO. 22043

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

JEWELL JAMES WILLIAMS,

Appellant,

vs.

FRANK GIBSON, HENRY A. BONEY, ROBERT C. DENT, DE GRAFF AUSTIN and ROBERT C. COZENS as members of the Board of Supervisors of San Diego County (State of California) and JOSEPH C. O'CONNOR, Sheriff of San Diego County (State of California),

Appellees.

On Appeal From the United States District Court For the Southern District of California

---

BRIEF OF AMICUS CURIAE COUNTY OF SAN DIEGO IN SUPPORT OF POSITION OF APPELLEES OTHER THAN THE UNITED STATES OF AMERICA

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

PRELIMINARY STATEMENT

Amicus Curiae, at the invitation of this Honorable Court, files this brief in support of the position of Appellees Frank Gibson, Henry A. Boney, Robert C. Dent, De Graff Austin and Robert C. Cozens, as members of the Board of Supervisors of San Diego County, State of California; and Joseph C. O'Connor, Sheriff of San Diego County, State of California, on the question of whether the provisions of the California Tort Claims Act of 1963 (Secs. 810 et seq., Gov. Code) governing liabilities and immunities of public entities and employees and the presentation of claims requirements set forth therein are applicable to an action brought in Federal Court by a federal prisoner confined in a county jail alleging that he was injured while he was confined therein as a result of the negligence of the Sheriff and the members of the Board of Supervisors.

FACTS

This is an action brought under the Federal Tort Claims Act (28 U.S.C.A. Secs. 1346(b) and 2671 et seq.), in the United States District Court for the Southern District of California, Southern Division. The complaint alleges that plaintiff, a federal prisoner confined in the San Diego County jail awaiting trial

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

in the United States District Court for the Southern District of California, Southern Division, was injured as the result of the negligence of defendants. The defendants are:

(1) Joseph C. O'Connor, Sheriff of County of San Diego, a county officer and by statute charged with the duty and responsibility for providing for the safekeeping of prisoners confined in the county jail.

(2) Frank Gibson, Henry A. Boney, Robert C. Dent, De Graff Austin, and Robert C. Cozens, as members of the Board of Supervisors of the County of San Diego, State of California, who are charged by state statute with the duty of supervising the official conduct of all county officers, including the sheriff.

(3) United States of America which is charged by federal statute with the duty to provide for the safekeeping, care and protection of federal prisoners.

Although the County of San Diego is named as a defendant in the caption to the action herein, there is no allegation in the complaint against the County of San Diego.

The court below granted the motion for dismissal of appellees herein on the grounds that the court did not have jurisdiction over the individual defendants joined in a Federal Tort Claims Act action since an independent basis of federal jurisdiction (i.e., diversity of citizenship or federal question) did not exist and that the plaintiff had failed to allege the filing of a claim with the County of San Diego as required by the California Tort Claims Act of 1963 (Secs. 810 et seq., Gov. Code). The appeal herein is from the order of dismissal.

STATEMENT REGARDING THEORY OF APPEAL

The theory of appellant's cause of action against appellees is not clear. It appears to be premised as follows:

(1) Appellees are federal employees or agents of the United States (i.e., Bureau of Prisons)under the circumstances of this case.

(2) Appellees, as federal employees or agents of the United States (i.e., Bureau of Prisons) are charged with a duty by federal statute (Citing 18 U.S.C.A. Sec. 4042) to provide for the safekeeping of federal prisoners.

(3) The jurisdiction of the Federal Court has been properly invoked against appellees because this is an action arising under a federal statute (i.e., 18 U.S.C.A. Sec. 4042)1/ and, therefore, the provisions of the California Tort Claims Act of 1963 (Secs. 810 et seq., Gov. Code) are inapplicable.

(4) However, if appellee members of the Board of Supervisors are not federal employees, the doctrine of pendent jurisdiction is applicable and permits the Federal Court to properly adjudicate the nonfederal cause of action against such appellee members of the Board of Supervisors.

ARGUMENT

A. THE FEDERAL DISTRICT COURT PROPERLY DISMISSED THE ACTION HEREIN SINCE NEITHER THE SHERIFF OF THE COUNTY OF SAN DIEGO NOR THE MEMBERS OF THE BOARD OF SUPERVISORS OF THE COUNTY OF SAN DIEGO ARE EMPLOYEES, OFFICERS OR AGENTS OF THE UNITED STATES NOR DOES THE FEDERAL STATUTE RELIED UPON BY APPELLANT ESTABLISH A DUTY OF CARE OWED BY APPELLEES TO APPELLANT.

1/ Appellant expressly negates any suggestion that his action against appellees is based on the Federal Tort Claims Act (Appellants Opening Brief, pages 8, 19).

The Federal Tort Claims Act is a statutory waiver of the traditional immunity of the United States Government from tort liability and imposes liability on the United States for damages resulting from the negligent or wrongful acts or omissions of government employees acting within the scope of thier office or employment where a private person under like circumstances would be liable to the claimant under the law of the state where the act or omission occurred (28 U.S.C.A. Secs. 1346(b) and 2671 et seq.; Indian Towing Company v. United States, 350 U.S. 61, 76 S. Ct. 122, 100 L.Ed. 48 [1955]).

Amicus Curiae concurs with the position of appellees that the Federal Tort Claims Act confers jurisdiction on the federal courts over only the United States itself but that the Act does not confer jurisdiction on the federal courts over individual defendants (Appellees Opening Brief, pages 2-3, 11-12). It is clear that in order to join individually-named defendants with the United States when a person sues under the Federal Tort Claims Act there must be a separate and independent basis of federal jurisdiction to support the claim against such defendants (Wasserman v. Perugini [2nd. Cir. 1949] 173 F.2d 305; Spears v. United States [WDW Va. 1967] 266 F. Supp. 22; 3 Moore's Federal Practice [2nd. Ed.] pages 2738-2739). Appellant concedes these points but

[illegible]

[illegible]

contends that a separate and independent basis of federal jurisdiction does exist in that appellees are federal employees of the Bureau of Prisons and owe a duty of care to federal prisoners as set forth in 18 U.S.C.A. Sec. 4042.

Appellant relies on _United States_ v. _Muniz_, 374 U.S. 150, 10 L.Ed.2d 805, 83 S.Ct. 1850 (1963), which establishes that an action may be maintained under the Federal Tort Claims Act for personal injuries sustained by a federal prisoner confined in a federal penitentiary as a result of the negligent acts or omissions of government employees. The quotation from the _Muniz_ case (Appellant's Opening Brief, pages 17-18) relates to the degree to which state law is applicable in an action under the Federal Tort Claims Act where the duty of care owed by the Bureau of Prisons to federal prisoners confined in federal penal institutions is fixed by federal statute, independent of an inconsistent state statute. In other words while the general tort law of the state is applicable in determining liability, any state law which denies recovery to prisoners against their jailers or against the state, based on principles of sovereign immunity, may not be applied to preclude an action under the Federal Tort Claims Act to recover for injuries sustained by a federal prisoner confined

in a federal penal institution. Since appellant concedes that the action against appellees is not based on the Federal Tort Claims Act (Appellant's Opening Brief, page 8), the Muniz case is not relevant to the issues before this court.

It has been long recognized that a state may refuse to allow the use of their jails and prisons for the commitment and confinement of federal prisoners and where a state so refuses the United States may not lawfully commit or confine a federal prisoner to such jails or prisons (Ex parte Shores [DCND Iowa 1912] 195 Fed. 627). Congress, as early as 1789, recognized this right of a state and requested, by joint resolution, that the various states adopt laws requiring the keepers (e.g., Sheriff) of their jails to receive and safely keep therein under the same penalties as in the case of state prisoners all prisoners committed or confined under the authority of the United States, the United States to pay for the support and keeping of such prisoners (Ex parte Shores [DCND Iowa 1912] 195 Fed. 627).

The Sheriff is a county officer (Sec. 24000, Gov. Code) and has the mandatory duty to "take charge of and keep the county jail and the prisoners in it" (Sec. 26605, Gov. Code; see also Sec. 4000, Pen. Code). Section 4004

[illegible]

of the Penal Code makes it one of the official duties of the sheriff as a state officer to receive and keep federal prisoners committed to the jail where provision is made by the United States for their support (County of Los Angeles v. Cline [1921] 185 Cal. 299, 301). The California Supreme Court in the case of County of Los Angeles v. Cline (1921) 185 Cal. 299, concluded that the sheriff in receiving and maintaining federal prisoners in the county jail pursuant to Section 4004 of the Penal Code (former Section 1601) is not acting for and as the agent of the United States. The court, after reviewing the pertinent state and federal statutes, concluded [at page 302]:

> "The only reasonable deduction from these interrelated provisions of the state and federal laws is that federal prisoners are to be received under the same conditions and subject to the same jurisdiction and control as state prisoners, and are to be fed and provided for in the same manner by the sheriff, subject to contract between the attorney-general and the county authorities for compensation to the county for their maintenance.
>
> ". . . The right of the United States to commit prisoners to the jails or prisons of a state is purely a matter of comity extended by the states and is subject to such demands for compensation as may be determined by contract with the proper authorities. (Ex parte Shores, 195 Fed. 627.)"

Section 4005 of the Penal Code, which finds its original enactment in 1851, is to extends to the United

[illegible]

States as a matter of comity the right to lawfully commit federal prisoners to county jails (County of Los Angeles v. Cline [1921] 185 Cal. 299, 302; Ex parte Shore [DCND Iowa 1912] 195 Fed. 627).

The prisons of the United States and the custody of prisoners under sentence are generally under the supervision and regulation of the Attorney General (18 U.S.C.A. Sec. 4001). The Director of the Bureau of Prisons is empowered to contract, for a period not exceeding three years, with the proper authorities of any state or political subdivision thereof for the imprisonment, subsistence, care and proper employment of federal prisoners (18 U.S.C.A. Sec. 4002). As indicated by appellee (Appellees' Opening Brief, page 6), the court below could properly take judicial notice of the contract between the Director of the Bureau of Prisons and the appellees to support its conclusion that appellees are independent contractors (Evans v. Madigan [DC Cal. 1959] 154 F. Supp. 913, 916). Appellant concedes the propriety of the court in taking such judicial notice (Appellant's Reply Brief, page 5).

Notwithstanding the determination by the court below that appellees are independent contractors, it has been long established by both

[illegible]

federal and state court decisions that the sheriff is not an officer or agent of the United States (i.e., Bureau of Prisons) but is merely a jailer for the United States of prisoners committed to a county jail by the federal courts (In re Birdsong [SD Ga. 1889] 39 Fed. 599; Saunders v. United States [DC Me. 1896] 73 Fed. 782; Ex parte Shore [DCND Iowa 1912] 195 Fed. 627; County of Los Angeles v. Cline [1912] 185 Cal. 299).2/ Thus, since the sheriff is not an officer or agent of the United States, it is submitted that the federal statute (18 U.S.C.A. Sec. 4042) relied upon by appellant to establish a duty of care is inapplicable.

Appellant suggests that Section 4006 of the Penal Code "merely acknowledges the force of federal statutes which make the sheriff a federal employee" (Appellant's Opening Brief, page 7). That section provides as follows:

2/ Appellant's assertion that the determination whether or not appellees are federal employees is governed by 28 U.S.C.A. Sec. 2671 (Appellant's Opening Brief, page 12) seems particularly erroneous since that section specifically applies to the Federal Tort Claims Act and appellant admits that his right to proceed against all appellees is based solely on 18 U.S.C.A. Sec. 4042 and not the Federal Tort Claims Act (Appellant's Opening Brief, page 8).

[illegible]

[illegible]

[illegible]

> "A sheriff, to whose custody a prisoner is committed as provided in the last section, is answerable for his safekeeping in the courts of the United States, according to the laws thereof."

It is clear that Section 4006 of the Penal Code must be read in pari materia with Section 4005 of the Penal Code and that it is no more than a codification of the rule that a keeper of a county jail who receives federal prisoners pursuant to the order of a federal court is subject to that court's jurisdiction to answer for any misconduct towards a prisoner committed to his custody by the federal court (In re Birdsong [SD Ga. 1889] 39 Fed. 599; Ex parte Shore [DCND Iowa 1912] 195 Fed. 627; see also Appellee's Opening Brief, page 3).

The duty of care established by 18 U.S.C.A. Sec. 4042 extends to a federal prisoner from the Bureau of Prisons. Conceivably, a federal prisoner confined in a county jail could maintain a cause of action under that section against employees of the Bureau of Prisons or the United States on the ground that they were negligent in permitting a federal prisoner to remain confined in a county jail (see Appellant's Reply Brief, page 4-5). However it does not follow that a federal prisoner may also use 18 U.S.C.A. Sec. 4042 to impose liability on a

[illegible]

[illegible]

[illegible]

[illegible]

nonfederal employee for the alleged negligence of that employee. Liability, if any, is predicated on state law or possibly the Federal Civil Rights Act (48 U.S.C.A. Sec. 1983), both of which are subject to the provisions of the California Tort Claims Act of 1963 (see e.g., Rubio v. Edmunds [DCCD Cal. 1967] No. 67-927; Williams v. Townsend [DCCD Cal. 1967] No. 67-1086).

Suffice it to say that since the sheriff is not an employee or agent of the United States under the circumstances herein, it is obvious that neither are the members of the board of supervisors. Section 25303 of the Government Code is a recognition of the fact that the board of supervisors is the governing body of a county and constitutes a general grant of power to the board of supervisors to oversee and investigate the activities of the various county officers (see e.g., House v. County of Los Angeles [1894] 104 Cal. 73). To suggest that Section 25303 of the Government Code both makes the members of the board of supervisors federal employees and creates a duty of care owed by the Board of Supervisors to appellant is to strain reason as well as to ignore organizational framework of county government in California.

[illegible]

[illegible]

B. THE LEGISLATIVE HISTORY CLEARLY DEMONSTRATES THAT THE LIMITATION PERIODS INCORPORATED IN THE CLAIMS PROVISIONS OF THE CALIFORNIA TORT CLAIMS ACT OF 1963 WERE INTENDED BY THE LEGISLATURE TO BE APPLICABLE TO ACTIONS BROUGHT BY FEDERAL PRISONERS CONFINED IN COUNTY JAILS AGAINST A PUBLIC ENTITY OR A PUBLIC EMPLOYEE AS THOSE TERMS ARE DEFINED IN THE CALIFORNIA TORT CLAIMS ACT OF 1963.

The California Tort Claims Act of 1963 sets forth the exclusive procedure to be followed by a plaintiff in bringing a claim against a public entity or a public employee for injury resulting from an act or omission occurring in the scope of employment of the public employee (Sec. 950.8, Gov. Code; see also Van Alstyne, California Government Tort Liability, Sec. 10.4, p. 436 and Part V, Notes 2-3, Sec. 950.8, pp. 799-800).

The provisions of the California Tort Claims Act of 1963 make it clear that when a public employee is sued for an act or omission in the scope of his employment, the action is barred by the failure to present a claim to the employing public entity (Sec. 950.2, Gov. Code; Burgdorf v. Funder (1966) 246 Cal.App.2d 443, 447). This is true even where the public entity itself is immune from liability.

Further, the plaintiff must allege in his complaint that he has complied with the claim statute in order to state a cause of action against a public employee (Burgdorf v. Funder (1966) 246 Cal.App.2d 443, 447). Clearly, the sheriff and members of the board of supervisors are public employees of the County of San Diego (Sec. 811.4, Gov. Code [defines "public employee"]; Sec. 811.2, Gov. Code [defines "public entity"]; Sec. 810.2 [defines "employee"]).

Turning to the time element, a claim relating to a cause of action for injury to person must be filed not later than the 100th day after the accrual of the cause of action (Sec. 911.2, Gov. Code). Additionally, a cause of action for such injury may not be maintained against the public employee until the claim has been rejected or has been deemed to have been rejected in whole or in part by the public entity (Sec. 950.6, Gov. Code). Finally, these strict claims provisions apply to prisoners' claims as well as to all other claims (Sec. 945.6(c), Gov. Code). Applying the above claims requirements to the case at bar, it is clear (1) that the alleged cause of action herein arose on or about May 16, 1966; (2) that appellant was required to file a claim with the County of San Diego within 100 days

of that date; (3) that appellant's imprisonment did not exclude him from the claims provision; (4) that appellant did not allege in his complaint that he complied with the claims statute; and (5) that, therefore, appellant has failed to state a cause of action against appellees precluding any recovery based on the complaint on file herein.

The action herein is one seeking relief from the alleged tortious actions of persons acting under color of the statutes of the State of California and, therefore, must be brought in full compliance with the California Tort Claims Act of 1963. The fact that appellant was at the time of injury a federal prisoner committed to and confined in the county jail is not significant since, as previously indicated, it is the status of the alleged wrongdoer that is controlling and appellees are not federal officers or employees. Further, that the Legislature intended the claims procedures and limitations periods provided for by the California Tort Claims Act of 1963 should be applicable to federal prisoners confined in county institutions is obvious from the fact that the Legislature was well aware of the existence of Sections 4005 and 4006 of the Penal Code but conspicuously omitted such persons from the

statutory provisions exempting particular types of claims or causes of action from the provisions of the California Tort Claims Act of 1963.

Contrary to the fears of appellant (Appellants Opening Brief pp. 7, 14), requiring compliance with the claims procedure provisions of the California Tort Claims Act of 1963 does not unduly or unreasonably impair or infringe the rights of a federal prisoner confined in a county jail.

Although a public entity cannot be held liable for any injury to any prisoner (Sec. 844.6(a), Gov. Code), a public employee may be held liable for any injury proximately caused by his negligent or wrongful act or omission (Sec. 844.6(d), Gov. Code). A prisoner is defined to include an inmate of a jail (Sec. 844, Gov. Code). Thus, the law of California provides a federal prisoner confined in a county jail with a right of recovery for negligently inflicted injuries at least equal to that provided federal prisoners under the Federal Tort Claims Act or under 18 U.S.C.A. Sec. 4042 who are confined in federal penal institutions.

CONCLUSION

For the reasons stated, it is respectfully urged by amicus curiae that the decision of the court below must be affirmed.

Respectfully submitted,

BERTRAM McLEES, JR., County Counsel

By Lloyd M. Harmon Jr.,
LLOYD M. HARMON, JR., Deputy
Attorneys for Appellees.

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

BERTRAM McLEES, JR., County Counsel

By Lloyd M. Harmon Jr.
LLOYD M. HARMON, JR., Deputy

No. 22046

ɪited States Court of Appeals

For the Ninth Circuit

ɪSTERS, CHAUFFEURS, WAREHOUSEMEN & HELPERS,
ɔCL UNION 524 affiliated with the INTERNATIONAL
BROTHERHOOD OF TEAMSTERS, CHAUFFEURS,
ᐟAREHOUSEMEN & HELPERS OF AMERICA, INC.,
Appellant,

vs.

. BILLINGTON d/b/a BILLINGTON BUILDERS SUPPLY
and BILLINGTON BUILDERS SUPPLY, INC.,
Appellee.

ᑭEAL FROM THE UNITED STATES DISTRICT COURT FOR
THE EASTERN DISTRICT OF WASHINGTON,
SOUTHERN DIVISION

HONORABLE WILLIAM N. GOODWIN, *Judge*

APPELLANT'S OPENING BRIEF

VANCE, DAVIES, ROBERTS & BETTIS
By George H. Davies
Attorneys at Law
Attorneys for Appellants

1 Fourth Avenue Building
ttle, Washington 98101

MR. PERRY J. ROBINSON
Attorney at Law
Attorney for Appellee

Liberty Building
ɛima, Washington 98901

THE ARGUS PRESS SEATTLE, WASHINGTON

No. 22046

ited States Court of Appeals
For the Ninth Circuit

ISTERS, CHAUFFEURS, WAREHOUSEMEN & HELPERS,
L UNION 524 affiliated with the INTERNATIONAL
BROTHERHOOD OF TEAMSTERS, CHAUFFEURS,
VAREHOUSEMEN & HELPERS OF AMERICA, INC.,
Appellant,

vs.

S BILLINGTON d/b/a BILLINGTON BUILDERS SUPPLY
and BILLINGTON BUILDERS SUPPLY, INC.,
Appellee.

AL FROM THE UNITED STATES DISTRICT COURT FOR
THE EASTERN DISTRICT OF WASHINGTON,
SOUTHERN DIVISION

HONORABLE WILLIAM N. GOODWIN, *Judge*

APPELLANT'S OPENING BRIEF

VANCE, DAVIES, ROBERTS & BETTIS
By George H. Davies
Attorneys at Law
Attorneys for Appellants

Fourth Avenue Building
tle, Washington 98101

MR. PERRY J. ROBINSON
Attorney at Law
Attorney for Appellee

Liberty Building
ima, Washington 98901

THE ARGUS PRESS SEATTLE, WASHINGTON

SUBJECT INDEX

TABLE OF CASES

TABLE OF CASES

TABLE OF CASES

OTHER AUTHORITIES

ıited States Court of Appeals
For the Ninth Circuit

ıMSTERS, CHAUFFEURS, WAREHOUSE-
ɴ & HELPERS, LOCAL UNION 524 af-
ıted with the INTERNATIONAL BROTH-
[OOD OF TEAMSTERS, CHAUFFEURS,
.REHOUSEMEN & HELPERS OF AMERICA,
., *Appellant,*

vs.

S. BILLINGTON d/b/a BILLINGTON
ILDERS SUPPLY and BILLINGTON BUILD-
SUPPLY, INC., *Appellee.*

No. 22046

?EAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

HONORABLE WILLIAM N. GOODWIN, *Judge*

APPELLANT'S OPENING BRIEF

JURISDICTIONAL STATEMENT

Chis is an appeal from findings of fact, conclusions law and judgment in favor of defendants-appellees an action brought by plaintiff-appellant to require ecific performance of an arbitration clause of a lective bargaining agreement.

After a trial on the merits before the United States strict Court for the Eastern District of Washing-

ton, Southern Division, findings and conclusions (V
I, R. 49-52) and judgment of dismissal (Vol. I,
54) were entered on March 24, 1967.

The District Court had jurisdiction by virtue
Section 301 of the Labor-Management Relations A
1947, 29 USC §185. (Vol. I, R. 33-34 Pretrial Or
Jurisdiction).

This Court has jurisdiction by virtue of 28 U
§1291 (appeal from a final decision of a Dist
Court).

STATEMENT OF THE CASE

Summary of the Facts

Plaintiff had successive collective bargaining agr
ments with defendant D. S. Billington, d/b/a Billi
ton Builders Supply all of which were negotia
through E. F. Velikanje, an attorney at law. Sho
before the anniversary date of the 1961-1963
lective bargaining agreement, Billington formed
defendant corporation, Billington Builders Sup
Inc. The corporation likewise appointed Velika
to negotiate with plaintiff. Velikanje submitted
offer to plaintiff which plaintiff accepted. Velika
communicated acceptance of the offer to the
poration. The corporation then refused to sign
collective bargaining agreement. A dispute arose
tween plaintiff and the corporation; plaintiff
quested arbitration and defendants refused.

History of Past Negotiations

Defendant D. S. Billington (hereinafter refer

as Billington) prior to Feb. 15, 1963, was engaged business within the City and County of Yakima, ashington, under the firm name and style of Bill-ton Builders Supply as a sole trader in retail and olesale sale of building materials. (Vol. I, R. 34, etrial Order — Admitted Fact No. 3). Commencing 1954 Billington had consecutive collective bargain-; agreements with the plaintiff, Teamsters, Chauf-ırs, Warehousemen & Helpers Union Local 524 ereinafter referred to as Teamsters Local 524) (Tr. 93). Billington appointed, as his agent for the gotiation of the collective bargaining agreement ich spanned the period from 1954, E. Frederick likanje, a Yakima attorney at law (Vol I, R. 34 etrial Order — Admitted Fact No. 4; Tr. 10-11). ilikanje had represented the building material in-stry in the Greater Yakima area since the end of orld War II and had negotiated collective bargain-; agreements with Teamster Local 524 on behalf Billington and several other employers engaged the retail and wholesale sale of building materials d related products in the Greater Yakima area 'ol I, R. 34, Pretrial Order — Admitted Fact No. 4, . 10, 28-29, 44-45).

Negotiation of 1963 Agreement

The 1961 negotiations between Teamsters Local 524 d Velikanje resulted in a collective bargaining reement between Teamster Local 524 and Billing-n which, by its terms, remained in effect from April 1961, until April 1, 1963 (Vol I, R. 34, Pretrial der — Admitted Fact No. 3; Tr. 93, Pltf. Exh. 1, ection 17). Such agreement provided: "It may be ened for negotiation of changes or termination by her party giving sixty (60) days notice prior to

April 1, 1963." (Pltf. Ex. 1, Section 17). No noti of termination was given. Instead, Teamster Loc 524 gave sixty (60) days "notice of . . . desire to op the agreement for the negotiation of changes" letter to Billington dated January 22, 1963, (Pl Ex. 2). Upon receipt of such letter Billington turn it over to Velikanje and at the same time instruct him to negotiate the collective bargaining agreeme with Teamster Local 524 (Vol I, R. 34 Pretrial Ord — Admitted Fact 4; Tr. 13, 94-96). On February 1963, E. Frederick Velikanje wrote Fred H. Weh the Secretary-Treasurer of Teamster Local 524, follows:

> "Your letters addressed to the building m terialmen in Yakima are beginning to come in the office, and, as in the past, I will be handli the negotiations on their contract. I would a preciate your advising me as soon as possil what modifications you feel should be made the contract. I am quite frank to state that r people, at the present time, feel that there shou be no modification, but let's see where our poi of difference might be, and see if we can dispo of this without too much difficulty." (Pltf. Ex.

Fred H. Wehde replied to Velikanje's letter February 4th by letter dated February 6, 1963, a dressed to Velikanje, in which he asked:

> "I would appreciate it very much if you wou advise me as to the names of the Building M terial Employers that you are representing f the purposes of negotiating a labor agreeme
>
> "As you indicated in your letter, you wou like to consummate the agreement as rapidly possible as so would we. We will try to meet wi you as soon as possible." (Pltf. Ex. 4)

On February 13, 1963, Velikanje wrote the follo

reply to Fred Wehde:

"In response to your letter of Februarp 6, 1963, wherein you asked the names of the Building Material employers that we will be representing on the labor agreement, please be advised that we will represent the following:

Sears Lumber Market;
Helliesen Lumber & Supply;
Granger Clay Products;
Fosseen's;
McGuire Lumber Company; and
Billington Builders Supply." (Pltf. Ex. 5)

'n February 15, 1963, Billington and Ormand .egge, along with Perry J. Robinson, their atney, formed the defendant corporation, "Billing- Builders Supply, Inc.", and Ormand Fluegge bene its President and General Manager (Vol. I, R. Pretrial Order — Admitted Fact No. 5).

Tegotiation of the 1963 collective bargaining agreent were conducted by Velikanje and Wehde and olved a series of meetings covering a period of e from April to September 1963. Velikanje first with Wehde on April 11, 1963 (Tr. 15). Following h meeting Velikanje addressed a letter dated April 1963, to the employers he represented, including lington, advising them of the results of his meet- and asked that they give him their opinions as n as possible (Tr. 15-16). Velikanje then called a eting of the employers on April 30, 1963, but he not keep a record of those who attended (Tr. 16). likanje next met with Wehde on May 6, 1963, and in wrote the employers, including Billington, a ort dated May 17, 1963, closing such report with statement:

"It will undoubtedly be necessary that I m with them again next week, and I would appre ate any comments that anyone has to make in lation to the procedure so far." (Tr. 17)

Velikanje held a meeting with the employers May 29, 1963, and Ormund Fluegge attended su meeting on behalf of Billington Builders Supply, I (Tr. 17). This was apparently the only meeting cal by Velikanje at which a representative of defenda was present (Tr. 17, 36, 105-107). At the May 29, 19 meeting the defendants for the first time told V kanje of the fact of incorporation (Tr. 35, 10 Fluegge testified with regard to the May 29, 19 meeting:

"Q. Did you tell Mr. Velikanje not to repres you at all?

A. I did not.

Q. You left it that way?

A. That is correct." (Tr. 106-107)

Following the May 29, 1963, meeting with the e ployers Velikanje wrote to Wehde on June 4, 19 and sent blind carbon copies to each of the employe including Billington Builders Supply, Inc. (Tr. The next meeting between Velikanje and plain occurred on June 24, 1963, before the Washing State Mediator and such meeting was followed by meeting between Velikanje and the employers on Ju 26, 1963. (Tr. 18)

A further meeting between Velikanje and Wel before the State Mediator as held on July 11, 19 at which Wehde indicated Teamster Local 524 had jected the employers' offer to that date on sick lea wages and vacation (Tr. 19). On July 15, 1963, V

ıje advised the employers, including Billington, of
h rejection (Tr. 19).

The final meeting between Velikanje and Wehde urred on August 27, 1963, at which the State Metor was also present. (Tr. 19) Velikanje stated at h meeting that he would recommend to the emyers a five cent an hour increase in wages on a year contract, retroactive to April 1, 1963, and uld give an answer to Wehde within the following ek (Tr. 19). Velikanje called a meeting of the emyers on Aug. 30, 1963 (Tr. 19). Velikanje testified t his records did not show which employers were sent at the Aug. 30, 1963, meeting. He did testify, wever, that he personally telephoned Billington ilders Supply, Inc., and advised them of the August 1963, meeting and that defendants had received opy of each notice of the progress of negotiations d had been notified of each employer meeting (Tr. 19). Fluegge admitted receiving the notices from likanje (Tr. 107).

As a result of the August 30, 1963, meeting between likanje and the employers an offer was made to intiff. The offer was transmitted orally to Wehde August 30, 1963, and confirmed in writing by the lowing letter dated September 3, 1963:

"Teamsters Local 524
16 North 3rd Avenue
Yakima, Washington
Attention: Mr. Fred Wehde
Re: Building Supply Industry Agreement

"Dear Mr. Wehde:

"This letter will confirm our telephone conversation of August 30th to the effect that the employers, under the Building Trades Industries

that we represent and for whom we have be negotiating, have authorized an offer that prese wages be increased 10c an hour now, 10c an ho April 1, 1964, and 10c an hour April 1, 1965, wi no retroactive pay. This increase would take eff during the pay-week that we receive an affirm tive answer from you. The other matters, of whi we have been negotiating, our answer would main the same.

"You are further advised that for the purpo of trying to terminate this situation, as we a vised, this offer is going to be open for a peri of ten (10) days, and if during that time you ha not accepted same or you have rejected it, th the offer of the employers shall revert back to o previous offer. By the making of this coun offer, you will recognize that the employers ha turned down your counter proposal of 5c an ho increase retroactive to April 1, 1963, on a one-ye contract.

"Very truly yours,

VELIKANJE & MOORI

By: /s/ E. F. Velikanje
E. F. Velikanje"
(Pltf. Ex. 6)

A copy of the foregoing offer was sent by Velikar to Defendant Billington Builders Supply, Inc., a copies were likewise sent to each of the other e ployers for whom Velikanje was authorized to ba gain, namely: Sears Lumber Market; Helliesen Lu ber & Supply; Granger Clay Products; Fosseen's a McGuire Lumber Company. (Tr. 22)

Concerning said offer Velikanje testified as follov

"Q. Was the offer that you set out in your lett of Sept. 3rd made on behalf of Billingto

"A. It was made on behalf of those that attended the meeting and from whom I had authority.

"Q Would you look on Exhibit Number 5?

"A. Yes.

"Q. Did you make the offer of September 3rd on behalf of all the employers that are listed on Exhibit Number 5?'

"A. I felt, yes, sir, that I was.

"Q. Up to the time of this September 3rd letter Mr. Velikanje, had you received any objection from Mr. Ormund Fluegge, or Mr. Billington, or any representative of either of them through the course of negotiations?

"A. Not to my recollection, except silence." (Tr. 23-24)

)n September 6, 1963, a Teamster Local 524 meet- was called of those members of plaintiff who rked for the previously named employers in the lding material industry in Yakima whom Velinje represented in the negotiations with Wehde. r. 63) Employees from each of the employers s present except Granger Clay Products. (Tr. In attendance at such meeting was the one on member of plaintiff who was employed by the endant Billington Builders Supply, Inc., James ith. (Tr. 63-64) At the union meeting on Septem- 6, 1963 Wehde reviewed the negotiations to date

xhibit No. 5 is the letter of E. Frederick Velikanje to Fred Wehde ated February 13, 1963, which reads as follows:

"In response to your letter of February 6, 1963, wherein you asked the names of the building material employers that we will be representing on the labor agreement, please be advised that we will represent the following:

"Sears Lumber Market;
Helliesen Lumber & Supply;
Granger Clay Products;
Fosseen's'
McGuire Lumber Company;
Billington Builders Supply."

and then read Velikanje's letter dated September
1963, setting forth the offer which the industry w
making to the plaintiff (Tr. 64). A secret ballot amo
the members of plaintiff was conducted and by a vo
of ten to two the members voted to accept the em
ployers' offer set forth in Velikanje's letter dat
Sept. 3, 1963 (Tr. 64).

On September 9, 1963, Wehde went to the office
Velikanje at which time Wehde advised him that t
plaintiff had accepted the employers' offer. (Tr. 2

Under date of Sept. 13, 1963, E. Frederick Ve
kanje sent a letter to Billington Builders Supp
Sears Lumber, Helliesen Lumber, Granger Clay Pro
ucts, Fosseen's and McGuire Lumber which stated
follows:

> "This letter will supplement our copy of
> letter of September 3, which was forwarded
> you, but which was addressed to Teamsters' Loc
> 524. Mr. Fred Wehde has advised us at the mee
> ing on Friday, September 6, the employees a
> cepted our counter proposition. We are now
> the process of preparing the necessary pape
> It is true, in our agreement we had stated that
> the pay week that we received an affirmati
> answer from them that the pay would start. Ho
> ever, in our negotiations we have agreed that t
> acceptance of this was made Friday, Septemb
> 6, and this would, therefore, mean that this i
> crease of pay would start as of Monday, Septe
> ber 2. Therefore, in this next pay check will y
> make such an arrangement so that the full amou
> for September is included. It is merely to noti
> you of the fact, so you can get your pay chec
> in order." (Tr. 22-23)

Between September 14 and September 30, 19
Velikanje received a telephone call from Ormu

uegge at which time Fluegge told Velikanje that llington Builders Supply, Inc., was not interested signing the contract and was no longer interested any of the negotiations. (Tr. 24-25, 108, Vol. I. R. , Pretrial Order—Admitted Fact 6)

Thereafter Wehde attempted to secure through elikanje an executed copy of the collective bargaing agreement which had been submitted to Billington uilders Supply, Inc., for its signature. Apparently elikanje overlooked the communication which he had ceived from Ormund Fluegge that defendant Billgton Builders Supply, Inc., would not sign the conact, and on October 15, 1963, in a letter to Wehde closing executed copies of the contract from all her employers made no mention of defendant's resal to sign the contract and merely stated he had t yet received a signed contract from Billington. Pltf's Ex. 8)

As late as December 9, 1963, Velikanje wrote to efendant Billington Builders Supply, Inc., requestg that it sign the collective bargaining agreement submitted to them earlier by Velikanje. (Pltf's. x. 8, Tr. 26-27)

Ormund Fluegge responded to the December 9, 63, letter of Velikanje, repeating the same thing at he had earlier told Velikanje, but again this inrmation, whatever its nature, was not communicated Wehde or any other representative of the plaintiff cause as late as July 30, 1964, Wehde wrote to D. S. illington asking for a signed agreement. (Tr. 27, 108-9, Dft's Ex. 21) He never received a reply. (Tr. 68)

Finally in March 1965, when the question arose con-

cerning the vacation pay due James Smith on hi termination, the plaintiff first learned of Defendant' contention that no collective bargaining agreemen with Teamster Local 524 existed. (Tr. 68-69) Team ster Local 524, after failing to resolve the dispute o May 13, 1965, requested in the following letter tha the matter be submitted to arbitration: (Dft's Ex. 23

"Mr. D. S. Billington
Billington Builders Supply
406 W. Lenox
Yakima, Washington

Dear Sir:

On prior occasions we have discussed with you representative whether Billington Builders Sup ply Company is bound by the collective bargain ing agreement between Teamster Local 524 an the Building Supply Industry in Yakima, Wash ington and your failure to comply with the term of such contract. Since we have been unable t resolve these issues Teamsters Local 524 deman that these issues be submitted to arbitration.

Under Article XI of the collective bargainin agreement, a copy of which is enclosed, we ar required to meet for the purpose of selecting neutral arbitrator.

"We suggest a meeting with you or your re presentative at your office at 2:00 P.M. on Ma 21, 1965. We ask that you acknowledge in writin by the 19th of May, 1965, that the above men tioned meeting date is acceptable to you or, if is not acceptable, we ask that you specify a tim and place when the meeting may be held. If w do not hear from you by the last mentioned dat we will assume that you are refusing to arbitrat this dispute and will act accordingly.

Very truly yours,
F. H. Wehde
Secretary-Treasurer

FHW: 1
Encl.-1
c: Perry Robinson, Attorney
Cert Mail''

Defendants refused. (Pltf's Ex. 9) This suit to com- arbitration was then commenced.

During the period from Feb. 15, 1963 (date of in- poration) until April 1, 1963, (anniversary date the 1961-1963 collective bargaining agreement) and m April 1, 1963, until James Smith left the employ Defendant Billington Builders Supply, Inc., in bruary 1965, Billington Builders Supply, Inc., ob- ved all the terms and conditions of the 1961-1963 d 1963-1966 collective bargaining agreement.

The 1963-1966 collective bargaining agreement ltf's Ex. 11) provided in Article XII for a wage rease effective September 1, 1963, and for a 10c an ur increase on April 1, 1964. James Smith received pay retroactive to September 1, 1963, as provided the 1963-1966 contract (Tr. 52, 99, 110). He re- ved the vacation provided in such agreement (Tr.). He received the overtime provided in such agree- nt (Tr. 54).

Article XIV of the 1963-1966 collective bargaining reement (Pltf's Ex. 11) required the payment of 7.85 a month into the Washington Teamsters Wel- re Trust and Article XV required payment of 10c hour into the Western Conference of Teamsters nsion Trust Fund. Billington Builders Supply, c., made the Health and Welfare and Pension nthly premium payments for James Smith until s termination. (Vol. I. R. 39 Plaintiff's Exhibits 13 d 14, Plaintiff's Exhibits 13 and 14, Tr. 88-89, 99,

111)

Velikanje for services rendered in negotiating t 1963-1966 collective bargaining agreement billed ea of the employers, Sears Lumber, Helliesen Lumb Granger Clay Products, Fosseen's, McGuire Lumb and Billington Builders Supply, Inc., a proportiona share. Defendant Billington Builders Supply, In paid Velikanje its proportionate share. (Vol. 1, R. Pretrial Order—Admitted Fact 9)

SPECIFICATION OF ERROR

1. The court erred in finding that E. Frederi Velikanje was not authorized to act as a ba gaining representative for the defendant, Bi ington Builders Supply, Inc. (Vol. 1, R. 5 Finding of Fact VI)
2. The court erred in finding that neither defenda Billington Builders Supply, Inc., nor its autho ized representative entered into negotiations wi the plaintiff and that the defendant informed Frederick Velikanje and representatives of t plaintiff that it did not wish to enter into a uni contract and would no do so. (Vol. I, R. 51, Fin ing of Fact VII)
3. The court erred in finding that there was no co tract in existence at the time James Smith te minated his employment between the plaint and either defendant. (Vol. I, R. 51, Finding Fact VIII)
4. The court erred in concluding that neither d fendant had an obligation to arbitrate the disp that existed between them and the plaintiff a concluding that the plaintiff's complaint shou be dismissed.
5. The court erred in failing to find from the e

dence that E. F. Velikanje was authorized and did make an offer on behalf of defendant Billington Builders Supply, Inc., which was accepted by plaintiff.

6. The court erred in failing to find from the evidence that defendant Billington Builders Supply, Inc., was part of a multi-employer group bargaining with plaintiff and did not timely or effectively withdraw from such multi-employer group prior to a contract being made with plaintiff.

7. Defendant D. S. Billington d/b/a Billington Builders Supply, as the former employer and defendant Billington Builders Supply, Inc., as the "successor employer" were each required to arbitrate the effect of the acquisition of the business on the rights of employees.

8. The court erred in failing to find from the evidence that defendant Billington Builders Supply, Inc., was stopped to deny the existence of a collective bargaining agreement with plaintiff.

9. The court erred in concluding that the prayer of plaintiff's complaint precluded the court from granting relief. (Tr. 120—Trial Court's Memorandum Opion)

SUMMARY OF ARGUMENT

1. Irrespective of whether Velikanje represented fendant Billington Builders Supply, Inc., indivi- ally or as part of a multi-employer group, he was thorized to make an offer for a collective bargain- g agreement with plaintiff on behalf of said de- ndant corporation and did on September 3, 1963, iich offer was accepted by plaintiff not later than ptember 9, 1963. Withdrawal of Velikanje's au- ority, if valid, did not occur until sometime between ptember 14th and 30th, 1963.

2. As part of a multi-employer group bargainin with plaintiff, defendant Billington Builders Suppl Inc., could only under applicable law withdraw fro such group at an appropriate time and by givin notice in writing to plaintiff, neither of which wa done here. Therefore, defendant Billington Builde Supply, Inc., is bound by the results of the negotia tions.

3. By its conduct of not disclosing to plaintiff it reservation to not sign the 1963-1966 collective ba gaining agreement and by its conduct in adhering t all the terms and conditions of such agreement unt March 1965, defendant Billington Builders Suppl Inc., is estopped to deny that it is a party to su agreement and bound by all its terms.

ARGUMENT

Suits which arise under Section 301 of the Labo Management Relations Act, 1947, 29 USC §185, a controlled by "Federal law which the courts mu fashion from the policy of our national labor laws. *Textile Workers v. Lincoln Mills,* 353 U.S. 448, 45 1 L. Ed. (2d) 972, 980. As the United States Supren Court stated in *Local 174, Teamsters, Chauffeur Warehouse & Helpers of America vs. Lucas Flour C* 369 U.S. 95, 104, 7 L ed. (2d) 593, 600:

> "With due regard to the many factors whic bear upon competing state and federal interes in this area, *California v. Zook,* 336 US 725, 73 731, 93 L ed 1005, 1009, 1010, 69 S. Ct. 841; *Ri v. Santa Fe Elevator Corp.,* 331 US 218, 230, 23 91 L. ed 1447. "1459, 1460, 67 S. Ct. 1146, w cannot but conclude that in enacting §301 Co gress intended doctrines of federal labor law un

formly to prevail over inconsistent local rules."

F. Velikanje was authorized and did make an offer behalf of Billington Builders Supply, Inc., which accepted by plaintiff.

'he Trial Court in Finding of Fact No. VI found:

> "That the said E. FREDERICK VELIKANJE was not authorized to act as a bargaining representative for the defendant, BILLINGTON BUILDERS SUPPLY, INC." (Vol. I, R. 50)

n Finding of Fact VII the Trial Court found:

> "...neither defendant, Billington Builders Supply, Inc., nor its authorized representative entered into negotiations with plaintiff, and that the defendant informed the said E. FREDERICK VELIKANJE and representatives of the plaintiff that it did not wish to enter into a Union contract and would not do so." (Vol. I, R. 51, Pretrial Order—Finding of Fact VII)

'here is no evidence to support such findings.

likanje testified:

"A. (Continuing) I called the various people I had represented before, and asked them if they wanted me to handle their negotiations this year along with the others.

"Q Did you call Mr. Dwight Billington?

"A. To the best of my recollection, I did.

"Q. And what did he—and he advised you—

"A. I say this — either that, or I have some memory of meeting Mr. Billington on the street. It could have happened that way. I

remember talking with him one time in fr
of the Seattle-First National Bank. It cou
have been that instead of on the phone.

"Q. And did he authorize you to negotiate f
him?

"A. Yes." (Tr. 13)

Mr. Dwight Billington testified as follows as to t
authority of Velikanje:

"Q. In 1963 did you receive a notice from t
Union, telling you that they wanted to
open negotiations of your contract?

"A. What year was that?

"Q. In 1963.

"THE COURT: There is a copy of th
letter that is one of the exhibits; here it
Counsel. Is that the one you are referring t

"MR ROBINSON: Yes.

"THE COURT: Take it up and show
to him.

"THE WITNESS: Yes.

"Q. (By Mr. Robinson) That was addressed
you personally?

"A. Yes.

"Q. What did you do with the letter?

"A. I gave it to Velikanje.

"Q. You took it down to Mr. Velikanje's offi

"A. I probably mailed it to him, I don't reme
ber.

"Q. You don't remember. Did you have any c
versation with him at all?

"A. No.

"Q. Was it your understanding then that he was conducting negotiations—you intended him to negotiate the contract for you?

"A. Yes." (Tr. 94)

Ir. Ormund Fluegge attended a meeting at Veli-ıje's office on May 29, 1963, and testified that at h meeting.

"A. I told him that we had incorporated, and that I wasn't sure whether we were going to sign the contract yet or not, that I would want to confer further with my attorney.

"Q. Was there much of anything done at the meeting?

"A. Very little was accomplished.

"Q. And you left?

"A. That is correct.

"Q. Did you tell Mr. Velikanje not to represent you at all?

"A. I did not.

"Q. You left it that way?

"A. That is correct."

"Q. Then I assume that your company received some correspondence or phone calls from Mr. Velikanje during the course of the summer?

"A. That is correct." (Tr. 106, 107)

Ioreover, in Admitted Fact No. 4, it was agreed in Pretrial Order:

"4. That on about January 22, 1963, Defendant, D. B. BILLINGTON, received a letter attached as Appendix B to Plaintiff's complaint and listed in this Pre-Trial Order as Plaintiff's Exhibit 2. That said letter was referred to De-

fendant D. S. Billington's attorney, E. F. Ve kanje, who was authorized and had in years pri thereto been authorized to negotiate the terms labor agreements with the plaintiff (Vol. 1, R. 3

Velikanje in his letter of February 13, 1963, Wehde (Pltf's. Ex. 5) stated in part:

> "Please be advised that we represent the f lowing:
>
> "... Billington Builders Supply"

Defendants never denied Velikanje's authority make such statement to plaintiff; on the contrary, Admitted Fact No. 4 of the Pretrial Order defenda admitted that Velikanje was authorized to negoti the terms of the labor agreement with the plaint (Vol. 1, R. 34)

All through the negotiations Velikanje reported t progress of same to each of the employers in t Building Material Supply Industry in Yakima, cluding defendants. During the progress of su negotiations agreement was reached on certain ite Through all such negotiations there was no revocati of authority by defendants of Velikanje to act as th collective bargaining representative, or disclosure plaintiff of any limitation of Velikanje's authori

Finally on Sept 3, 1963, Velikanje made an offer behalf of Billington Builders Supply, Inc. (Plt Ex. 6) Copy of such offer was sent to Billingt Builders Supply, Inc. Plaintiff accepted such of on Sept. 6, 1963, and communicated such acceptar to Velikanje on Sept. 9, 1963.

Velikanje advised Billington Builders Supply, In

ne acceptance of the offer by plaintiff by letter
d Sept. 13, 1963. (Tr. 22-23) Any intent to revoke
authority of Velikanje did not occur until after
acceptance of the offer was communicated to Veli-
e, and Velikanje, in turn, had communicated the
ptance to Billington Builders Supply, Inc. Any
npted revocation of authority after offer, accept-
and communication of acceptance could have no
ible effect on the validity of the contract which
e as a result of such offer, acceptance and com-
ication of acceptance.

s this court has observed, "the normal rules of
and acceptance are . . . determinative as to
ther an agreement has been reached in a collective
aining situation." *Lozano Enterprises vs. NLRB*
C.A.) 327 F. 2d 814, 55 LRRM 2510.

pplying the decisions of the National Labor Re-
ns Board a collective bargaining agreement
ted Sept. 9, 1963. *Tanner Motor Livery, Ltd.,* 160
RB No. 127, 63 LRRM 1242; *Tacoma Printing
ssmen's Union No. 44 and Valley Publishing,* 131
RB No. 133, 48 LRRM 1187.

he fact that the employer did not execute the col-
ve bargaining agreement does not affect the vali-
of the agreement reached on Sept. 9, 1963. *Con-
's Express vs. NLRB,* (2nd C. A.) 195 F. 2d 906,
LRRM 2617; *Roadway Express vs. General Team-
s, Local 249,* 330 F. 2d 859, 56 LRRM 2085.

Billington Builders Supply, Inc., was part of a mul employer group bargaining with plaintiff and did n timely or effectively withdraw from such multi-employ group.

The test of multi-employer bargaining was la down by the National Labor Relations Board in *Bu ker Hill & Sullivan Mining Co.,* 89 NLRB No. 8, LRRM 1547:

> "'The Board has held that the essential e ment for establishing a multiple-employer u is participation by a group of employers, wheth members or nonmembers of an association, eith personally or through an authorized represent tive, in joint bargaining negotiations. We ha found such units appropriate although the par cular employers involved did not belong to a fo mal employer association, and each employer h its own representative present during negoti tions, and the negotiations resulted in the exec tion of separate, but identical contracts.'"

The National Labor Relations Board has held th a multi-employer unit existed even though the repr sentative of the employer indicated in writing to t union that he was representing the various emplo ers on "an individual and separate employer basis *Wards Cove Packing Company, Inc., et al,* 160 NLR No. 23.

Multi-employer bargaining exists even though t participating employers retain the right to appro or disapprove the agreement reached. *Quality Lim stone Products, Inc.,* 134 NLRB No. 62, 53 LRR 1357; *Kroger Co.,* 148 NLRB 569, 57 LRRM 1021.

ulti-employer bargaining existed even assuming representative of the employers had no authority bind the individual employers. *Bellingham Auto-ile Dealers Association,* 90 NLRB No. 59, 26 RM 1221.

argaining with individual employers within the ti-employer group on limited matters is not in-sistent with the concept of collective bargaining he multi-employer unit. *Kroger Co.,* 148 NLRB 69, 57 LRRM 1021; *United States Warehouse pany,* 98 NLRB No. 9, 29 LRRM 1298; *Furni- Employers' Council,* 96 NLRB No. 151, 28 RM 1623.

he National Labor Relations Board in *Retail As-ates, Inc.,* 120 NLRB No. 66A, 42 LRRM 1119, blished the following rules governing the with-wal of an employer from multi-employer bar-ing:

> "We would accordingly refuse to permit the withdrawal of an employer or a union from a fully established multi-employer bargaining unit, except upon adequate written notice given prior to the date set by the contract for modification, or to the agreed upon date to begin the multi-employer negotiations. Where actual bargaining negotiations based on the existing multi-employer unit have begun, we would not permit, except on mutual consent, an abandonment of the unit upon which each side has committed itself to the other, absent unusual circumstances."

his court relied upon the *Retail Associates* case, ra, in *NLRB v. Jeffries Banknote Co.,* (9th C. A.) F. 2d 893, 46 LRRM 2919, when it held that an ployer was bound by the results of multi-employer

bargaining because it had not unequivocally or timel withdrawn from such multi-employer bargaining.

Billington Builders Supply, Inc., is bound by th results of the collective bargaining between Velikanj and Wehde.

NLRB v. Sheridan Creations, Inc. (2nd C. A. 357 F. 2d 245, 61 LRRM 2586.

NLRB v. Tulsa Sheet Metal Works, Inc., 367 F 2d 55, 63 LRRM 2217.

Korner Kafe, Inc., 156 NLRB No. 107, 61 LRR 1213.

Quiel Bros. Electric Sign Service Co., Inc., 15 NLRB No. 28.

Detroit Window Cleaners Union, Local 139 (Da lyte Service Co.) 126 NLRB No. 8, 45 LRRM 127

Anderson Lithograph Co., 124 NLRB No. 117, 4 LRRM 1544.

D. S. Billington d/b/a Billington Builders Supply a the former employer and Billington Builders Suppl Inc., as the "successor employer" were each require to arbitrate the effect of the acquisition of the busine on the rights of employees.

Section 17 of the 1961-1963 collective bargainin agreement between plaintiff and D. S. Billingto d/b/a Billington Builders Supply provided for eithe giving notice of termination, or notice of opening th agreement for negotiation of changes. (Pltf's Ex. 1) The plaintiff did not terminate the agreement bu

ıer it gave merely notice of opening the agree-
ıt for negotiation of changes (Plaintiff's Ex. 2).
ls fact, together with the fact that defendant Bill-
ıon Builders Supply, Inc., was a "successor em-
ıer," requires that irrespective of whether Billing-
ı Builders Supply, Inc., is bound by the 1963-1966
ıective bargaining agreement each defendant is re-
ıred to arbitrate the effect of the acquisition of the
ıiness on the rights of the employee James Smith.

Vackenhut Corp. v. Plant Guard Workers, Local
, (9th C. A.) 332 F. 2d 954, 56 LRRM 2466.

ohn Wiley & Sons v. Livingston, 376 U.S. 543, 11
ed. 2d 898.

ocal Lodge 595, District 152, I.A.M. vs. Howe
ınd Co., 350 F. 2d 508, 60 LRRM 2065.

'rayer of Complaint did not preclude Court from granting relief to plaintiff.

n his initial oral decision the Trial Court found t Billington Builders Supply, Inc., was estopped deny the claim of James Smith (Tr. 112a-112g). the subsequent Memorandum Decision the Trial ırt stated:

> "Previously, the Court announced that Billington was estopped to deny Smith's claim, but the Court now believes it was in error because Smith's bargaining representative asks only that Smith's claim be arbitrated in accordance with the terms of the agreement, and the Court has previously found that no agreement existed between the union and Billington. Therefore, the Court has no power or authority to grant relief to Smith in excess of that claimed by his bar-

gaining agent in the complaint." (Tr. 120)

We are dealing here with a long collective bargai ing history which established Velikanje's impli authority to bind his clients. Always in the past ea of the employers had signed the agreement whi resulted from the negotiations between Velikanje a Wehde. (Tr. 68) Never had Teamster Local 524 negotiated a contract with an employer after co pleting negotiations with Velikanje. (Tr. 66) Tea ster Local 524 had every reason to believe and w entitled to believe that Billington Builders Supp Inc. had agreed to the 1963-1966 collective bargaini agreement; particularly is this true in light of t fact that defendants adhered to all the terms a conditions of such agreement.

The Trial Court should have found that Billingt Builders Supply, Inc., was estopped from denying t existince of the collective bargaining agreement view of its adoption and ratification of same. *Lewis Cable,* 107 F. Supp. 196, 30 LRRM 2603. *Nelson v. V tory Electric Works* [U.S. Dist. Ct., Dist. Md.] LRRM 2652.

In view of Rule 54(c), F.R.C.P., the Trial Cou did have authority to grant such relief. Rule 54(F.R.C.P. was called to the Trial Court's attention the time of entry of the Findings of Fact and Co clusions of Law and Judgment.

CONCLUSION

At the time of the termination of James Smith's employment with Billington Builders Supply, Inc., a collective bargaining agreement requiring arbitration of disputes existed between Plaintiff and Billington Builders Supply, Inc., either as the result of offer and acceptance or it resulted from the failure of Billington Builders Supply, Inc., to timely and effectively withdraw from the multi-employer bargaining. In any event, Billington Builders Supply, Inc., is estopped to deny the existence of such collective bargaining agreement.

The judgment in favor of defendants should be reversed.

Respectfully submitted,

VANCE, DAVIES, ROBERTS & BETTIS
By George H. Davies
Attorneys at Law
Attorneys for Appellants

411 Fourth Avenue Building
Seattle, Washington 98101

MR. PERRY J. ROBINSON
Attorney at Law
Attorney for Appellee

3 Liberty Building
Yakima, Washington 98901

CERTIFICATE OF SERVICE

I certify that, in connection with the preparation of this Brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing Brief is in full compliance with these rules.

George H. Davies
Of Attorneys for Plaintiff-Appellant

Appendices

TABLE OF EXHIBITS

intiffs:

mber:	*Marked:*	*Offered:*	*Admitted:*
	(Vol. I, R. 38, Tr. 11)	Tr. 11	Tr. 12
	(Vol. I, R. 38, Tr. 11)	Tr. 11	Tr. 12
	(Vol. I, R. 38, Tr. 11)	Tr. 11	Tr. 12
	(Vol. I, R. 38, Tr. 11)	Tr. 11	Tr. 12
	(Vol. I, R. 38, Tr. 11)	Tr. 11	Tr. 12
	(Vol. I, R. 38, Tr. 11)	Tr. 11	Tr. 12
	(Vol. I, R. 38, Tr. 11)	Tr. 11	Tr. 12
	(Vol. I, R. 38, Tr. 11)	Tr. 11	Tr. 12
	(Vol. I, R. 38, Tr. 11)	Tr. 11	Tr. 12
	(Vol. I, R, 38, Tr. 11)	Tr. 11	Tr. 12
	(Vol. I, R. 38, Tr. 11)	Tr. 11	Tr. 12
2	(Vol. I, R. 39, Tr. 11)	Tr. 11	Tr. 12
3	(Vol. I, R. 39, Tr. 43)	Tr. 43	Tr. 43
4	(Vol. I, R. 39, Tr. 34)	Tr. 43	Tr. 43
5	Tr. 41	Tr. 42	Tr. 42-43
6	Tr. 41	Tr. 42	Tr. 42-43
7	Tr. 41	Tr. 42	Tr. 42-43
8	Tr. 41	Tr. 42	Tr. 42-43
9	Tr. 41	Tr. 42	Tr. 42-43
0	Tr. 54	Tr. 55	Tr. 55

fendants:

1	(Vol. I, R. 39, Tr. 31)	Tr. 31	Tr. 31
2	(Vol. I, R. 39, Tr. 31)	Tr. 31	Tr. 31
3	(Vol. I, R. 39, Tr. 31)	Tr. 31	Tr. 31
4	(Vol. I, R. 39, Tr. 31)	Tr. 31	Tr. 31

22047 and 22047-A (Consolidated)

UNITED STATES COURT of APPEALS

FOR THE NINTH CIRCUIT

MELVIN L. HAIR and ESTHER HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

AND

RICHARD E. HAIR and NAOMI L. HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

On Petitions For Review of Decisions of The Tax Court of the United States (Tax Court Nos. 3297-65 and 5001-65)

BRIEF OF PETITIONERS

CAMERON SHERWOOD

SHERWOOD, TUGMAN & GREEN
601-611 Baker Building
Walla Walla, Washington 99362

Attorneys for Petitioners

22047 and 22047-A (Consolidated)

UNITED STATES COURT of APPEALS

FOR THE NINTH CIRCUIT

MELVIN L. HAIR and ESTHER HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

AND

RICHARD E. HAIR and NAOMI L. HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

**On Petitions For Review of Decisions of
The Tax Court of the United States
(Tax Court Nos. 3297-65 and 5001-65)**

BRIEF OF PETITIONERS

CAMERON SHERWOOD

SHERWOOD, TUGMAN & GREEN
601-611 Baker Building
Walla Walla, Washington 99362

Attorneys for Petitioners

INDEX

CASES

(Table of Cases continued)

RULES

STATUTES

UNITED STATES COURT of APPEALS

FOR THE NINTH CIRCUIT

22047 and 22047-A (Consolidated)

MELVIN L. HAIR and ESTHER HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

AND

RICHARD E. HAIR and NAOMI L. HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

On Petitions For Review of Decisions of The Tax Court of the United States (Tax Court Nos. 3297-65 and 5001-65)

BRIEF OF PETITIONERS

OPINION BELOW

The Tax Court opinion filed February 9, 1967 (R. 88), resulting in decisions adverse to petitioners entered April 3, 1967 (R. 105, 107), is not yet officially reported.

JURISDICTION

Petitioners reside in the State of Washington. Their federal income tax returns for the tax years in question (1962 and 1963) were filed with the District Director at Tacoma, Washington. (R. 49-82; joint exhibits 1A, 2B, 3C and 4D)[1] After treasury audits, deficiency notices were issued to the petitioner-taxpayers on March 11, 1965 and May 25, 1965. (R. 1, 17). The deficiencies were protested by petitioners to the extent the Commissioner determined they could not treat their sales of sand and gravel on their 1962 and 1963 returns as capital gain transactions. (R. 4, 20)

Within the time limited, petitioners filed amended petitions with the Tax Court for redeterminations of the deficiencies pursuant to 26 U.S.C. Section 6213. (R. 1, 17)

The parties submitted the cases, after consolidation (R. 38) upon joint stipulation of facts (R. 40) and joint exhibits therein referred to, with their briefs. (R. 49-87)

The Tax Court opinion (R. 88-98) upholding the respondent Commissioner was followed by decisions entered April 3, 1967 (R. 105, 107). The cases were brought to this Court within the three months period prescribed by Section 7483 of Internal Revenue Code of 1954 by petitions for review filed June 19, 1967. (R. 108, 121) Jurisdiction of this Court is conferred by Section 7482 of that Code. (26 U.S.C. 7482, 7483)

(1) See Appendix of Exhibits post p. 39

This Court ordered consolidation of the petitions for review for appeal purposes on August 4, 1967. (R. 38)

ISSUES PRESENTED

1. When petitioners, whose sole business is farming, who never engaged in the sale of sand and gravel, in the ordinary course of business, obligated a single purchaser to purchase and remove "all of Sellers' right, title and interest in and to the sand and/or gravel situate upon . . ." specified acres of their large grain farm, within three years, the time estimated as sufficient to enable the purchaser to remove a total volume of the materials sufficient to enable the purchaser to fulfill his federal dam construction contract, at a fixed price per cubic yard, payable every thirty days as removed, did the petitioners reserve or retain any such "economic interest" in the sand and gravel (except for security purposes) as to preclude them from the benefit of the capital gains tax provisions of the Internal Revenue Code? (26 U.S.C., Section 1201-1244, particularly Section 1221; R. 40-48).

2. Did the Tax Court erroneously hold that the written agreement (Joint Ex. No. 6F; R. 84-87) when read with the Stipulation of Facts (R. 40) and joint exhibits referred to therein (R. 49-87), was intended to be a mineral lease or royalty or mere license agreement to remove sand and gravel and not, a contract of sale of capital assets in specified volume over a fixed period of time, with a definite obligation on the part of both sellers and purchaser to so perform the contract? (R. 88-98).

3. Did the Tax Court err in determining that when the purchaser ceased to remove sand and gravel from petitioners' land after the purchaser had completely performed his sub-contract at Lower Monumental Dam, that an "economic interest" reverted to petitioners? (Joint Ex. No. 6F) (R. 84-87).

STATUTES INVOLVED

Internal Revenue Code of 1954, as amended (26 U.S.C. 1201-1244), particularly see 26 U.S.C., p. 71:

> "Section 1221. Capital Asset Defined for purposes of this subtitle, the term 'capital asset' means property held by the taxpayer (whether or not connected with his trade or business), but does not include—
>
> (1) stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business;
>
> (2) property, used in his trade or business, of a character which is subject to the allowance for depreciation provided in section 167, or real property used in his trade or business;
>
> (3) a copyright, a literary, musical, or artistic composition, or similar property, held by—
>
> > (A) a taxpayer whose personal efforts created such property, or
> >
> > (B) a taxpayer in whose hands the basis of such property is determined, for the purpose of determining gain from a sale or exchange, in whole or in part by reference to the basis of such property in the hands of the person whose personal efforts created such property;

(4) accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in paragraph (1); or

(5) an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1961, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue."

26 U.S.C. (1967 ed.,) Section 1221, p. 71.

STATEMENT

The Tax Court held that revenue from the sale of sand and gravel from petitioners' farmlands was not a capital gain and that the transaction gave rise to ordinary income within the meaning of the federal income tax law.

The facts must be adduced solely from the stipulation of facts and joint exhibits, including particularly, Ex. 6F, the contract of sale. (R. 40 at 48; R. 84-87) Questions of mixed fact and law arise in these cases by reason of the differing interpretations of the contract and surrounding circumstances, by the Commissioner, the Tax Court and petitioners. Therefore, we incorporate by reference the stipulation of facts and joint exhibits 1A through 6F as a part of this brief. (R. 40-48; 49-87). Exhibits 1A, 2B, 3C and 4D are the 1962 and 1963 income tax returns of the respective petitioners, Melvin L. Hair and Esther Hair, Richard E. Hair and Naomi L. Hair. Exhibit 5E is a map descriptive of the farmlands of petitioners, showing red

shaded areas where the gravel was located before removal; also demonstrating the proximity of the sand and gravel bed to the damsite on the Snake River where the purchaser had formally subcontracted to make use of the purchased materials. (See R. 83)

Exhibit 6F, the contract authorizing removal of the sand and gravel, (R. 84-87) is couched in sales language. The contract must be interpreted "from its four corners" — significant portions of the contract include the following:

> "That in consideration of the sum of Ten Dollars ($10.00), receipt of which is hereby acknowledged, and of the stipulations herein contained, and the payments to be made as hereinafter specified, the Seller hereby agrees to sell to the Purchaser, and the Purchaser hereby agrees to purchase from the Seller, the following:
>
> > All of Sellers' right, title and interest in and to the sand and/or gravel situate upon the following described premises:
> >
> > All of Section Eleven (11) and the South Half of the Southwest Quarter and the Southeast Quarter of Section Two (2) in Township Twelve (12) North, Range Thirty-four (34) E.W.M., Walla Walla County, State of Washington.
>
> This agreement shall remain in full force and effect for such a time as shall be required to enable Purchaser to complete its contract with the Prime Contractor related to construction of Lower Monumental Dam on the Snake River under which contract Purchaser has agreed to furnish all sand and gravel for construction of the south shore portion of said Dam. It is estimated that per-

> formance of the said contract by Purchaser shall take approximately three (3) years from the date of this Agreement but that Purchaser shall, nevertheless, have the full time necessary to complete said contract. In the event of the abandonment of said contract by Purchaser, this contract shall be deemed terminated. . . ."[2]

The purchaser agreed in the contract to pay the Seller Fifteen Cents (15c) per cubic yard for all sand and gravel removed from the lands of the Seller. (R. 85) Payments were contracted by the purchaser to be made once a month based on statements furnished to petitioners and on records kept at Lower Monumental Dam site for all materials removed during the previous calendar month.

The parties provided for arbitration of disputes as to amounts of sand and gravel removed by the purchaser from petitioners' lands. (R. 85)

The contract required written consent from the sellers before sand or gravel could be removed from any of the lands which were summerfallowed or cultivated. (R. 86)

The Stipulation of Facts (R. 40-48) agreed to between the parties provided:

(a) That the 1962 and 1963 returns were timely filed with the proper District Director;

(b) That deficiency notices when received resulted

---

(2) The contract was not "abandoned" in a realistic sense but was terminated by mid 1964 when the purchaser's subcontract at Lower Monumental Dam was completely performed. (R. 41-42)

in timely filing of petitions to the Tax Court; (R. 40-41)

(c) That petitioner husbands are owners of undivided one-half interests in the farmlands shown on the map, Exhibit 5-E, through the Estate of their late mother;

(d) That Curtis Construction Company, a subcontractor at Lower Monumental Dam on the Snake River, State of Washington, needed sand and gravel to fulfill its subcontract for materials it was obliged to deliver for use at the dam site; that its borings located suitable sand and gravel on petitioners' farmlands of commercial value;

(e) That upon fulfillment of its subcontract on the Lower Monumental Dam federal construction contract in 1964, uninfluenced by petitioners, the purchaser of the sand and gravel voluntarily abandoned or terminated its contract with petitioners; (R. 42)

(f) That Curtis had purchased the right to remove "all the commercially valuable sand and gravel on said lands of petitioners," under the contract, Exhibit 6F; (R. 42)

(g) That during 1962, 1963 and a portion of 1964, Curtis removed sand and gravel pursuant to the contract, Exhibit 6F, and paid for the same in accordance with the terms of that contract; (R. 43)

(h) That the sand and gravel so purchased and re-

moved was paid for at a fixed price per cubic yard in monthly installments as required by the contract which "expressed the meeting of the minds of the parties". It provided interalia that the Curtis Construction Company agreed to purchase:

> "All of the sellers' right, title and interest in and to the sand and/or gravel situate . . . " upon the specified lands of petitioners and also deemed the contract terminated "In the event of abandonment of said contract by purchaser . . .". (R. 43)

(i) Curtis commenced removal of the materials in 1962. The parties deemed the contract terminated in 1964,[3] when Curtis completed its subcontract; (R. 44)

(j) That the Purchaser on its income tax returns gave certain tax treatment to its transactions under the contract (Ex. 6F) satisfactory to the Commissioner, to which statement of fact petitioners objected as to materiality and relevancy; (R. 44, 48 par. 14)

(k) That petitioners were the actual sellers and that they were of the view the payments received pursuant to Exhibit 6F "were payments received in return for the sale of the sand and gravel in place. Accordingly, they reported the payments as the sales price of a capital asset held over six months." (R. 45)

(l) That at all times relevant petitioners were farmers, never engaged in the trade or business of selling or marketing sand and gravel; that the land described on Exhibit 6F was part of their farmlands, the greater portion of which was wasteland, the situs

(3) These cases will in effect also determine the legal status of tax deficiencies claimed with relation to petitioners' 1964 returns.

of a known deposit of sand and gravel; that a supplemental written agreement would be required before the purchaser might remove sand and gravel from cultivated portions of the land; that Curtis did not have occasion to remove sand or gravel from the cultivated or summerfallow lands, except in amounts de minimus; (R. 45)

(m) That certain adjustments, not herein directly in issue, would be made in the 1962 and 1963 returns, depending on the outcome of the cases; (R. 46, 47)

(n) That in "simplest form, the issue . . . is whether the money received . . . was long term capital gain or ordinary income." If ordinary income, depletion allowance of five percent is allowable. If capital gain was realized, no depletion allowances should be made.

The Stipulation of Facts and joint exhibits constitute the entire record from which the facts and law must be deduced by inferences and interpretation.

The opinion of the Tax Court (R. 88-98) is sufficient to constitute findings of fact and conclusions of law. Cf. **Stone v. Farnell** (CA 9) 239 F. 2d 750 (1956).

SPECIFICATIONS OF ERROR

The Specifications of Error are the same in each case. The specifications will encompass the Statement of Points filed herein pursuant to Rule 17(6) CA 9. (R. 134)

The Tax Court erred:

(1) In refusing to hold that when petitioners, who

are farmers, not engaged in the sale of sand and gravel in the ordinary course of business, sold sand and gravel in place on the uncultivated or wasteland portions of their grain producing farm, the purchase price paid constituted capital gains from the sale of capital assets as defined by 26 U.S.C. Sections 1201-1238, particularly Section 1221.

(2) In its interpretation of the contract (Joint Exhibit No. 6F, R. 40) by finding no present sale thereunder to the purchaser of all commercially valuable sand and gravel on the described lands of the petitioners in volume necessary to enable purchaser to fulfill its subcontract on the Lower Monumental Dam. (R. 40-42)

(3) In finding that the payment to petitioners by the purchaser for the sand and gravel at the rate of Fifteen Cents (15c) per cubic yard, constituted ordinary income to petitioners and not capital gain, for federal income tax purposes.

(4) In holding the taxpayers retained substantial or material economic interests in the sand and gravel attempted to be sold in place for other than security purposes to insure payment of the purchase price.

(5) In holding the written agreement (Joint Ex. No. 6F, R. 40) was not a sales agreement but was a lease or royalty agreement.

(6) In holding there was no legal obligation on the part of the purchaser to pay for all of the commercially valuable sand and gravel on the 760 acre portion of petitioners' farm wastelands in volume necessary to en-

able the purchaser to fulfill its subcontract at Lower Monumental Dam project. (R. 40-42).

(7) In failing to find the agreed Stipulation of Facts, including Joint Exhibits 1A to 6F, inclusive, in fact and law, was a capital gains transaction and not realization of ordinary income to the petitioners. (R. 40-87)

(8) In holding the petitioners liable to payment of tax deficiencies or penalties on the basis of tax rates related to ordinary income realizations instead of income by way of capital gains from sale of capital assets — sand and gravel.

(9) In refusing to follow rationale of the decisions of the Ninth Circuit, particularly **Gowans v. Commissioner** (CA 9) 246 F. 2d 448, 451, (1957) where a company obligated itself to remove all sand under bona fide contract of sale, was held not a mineral lease or royalty or license agreement.

(10) In its refusal to set aside the tax deficiencies challenged by petitioners related to their 1962 and 1963 income tax returns.

SUMMARY OF ARGUMENT

For brevity and coherence, we will argue the Specifications of Error in mainly three categories. First, we will deal with those related to the contract (Joint Ex. No. 6F; R. 84-87) and second, those posed by the Stipulation of Facts and Joint Exhibits referred to in the Stipulation. Specifications (2), (3), (4), (5), (6) and (9) relate primarily to the contract (Joint Ex.

No. 6F). Specifications (1), (7), (8) and (10) relate more to the Stipulation of Facts and Joint Exhibits referred to therein. (R. 40-48; 49-87) Thirdly, we will deal with the questions of mixed fact and law related to the Record and the Tax Court's opinion for clarification of petitioners' contentions. (R. 88-98)

THE CONTRACT

In substance, the contract (Joint Ex. No. 6F; R. 84) was intended to be and was a contract for sale and removal of sand and gravel in place in volume necessary to permit the purchaser, Curtis Construction Company (hereafter "Curtis"), to perform within three years its subcontract at Lower Monumental Dam site. The contract was in neither form nor substance a lease, royalty agreement, or a license.

The parties are designated as "Seller" and as "Purchaser". The sales price is based upon Fifteen Cents (15c) per cubic yard of material, payable within thirty (30) days following removal.

The purchaser was clearly obligated to remove all the commercially valuable sand and gravel on petitioners' described wastelands needed to fulfill the Curtis subcontract on the dam construction project near petitioners' lands. (Joint Ex. No. 5E) Curtis purchased "all" of the sand and/or gravel on specified lands and contracted to remove it within the three years estimated for completion of the subcontract. That subcontract was performed and all the sand and gravel commercially valuable to Curtis for that subcontract was removed and paid for in 1962, 1963 and

1964 when the contract with petitioners was terminated. The transaction involved the sale of capital assets by sellers to the purchaser under 26 U.S.C. Section 1221. But for Internal Revenue Code Sections 1201-1244, gains from the sale or exchange of capital assets such as sand and gravel would be taxable as ordinary income. Capital gains are gains from the sale or exchange of capital assets. Section 1221 of the Code (See P. Page 4 this Brief) defines certain assets not entitled by law to capital gains income tax treatment. Sand and gravel is not one of the assets so excluded by Section 1221 of the Code.

THE STIPULATION OF FACTS

The Stipulation of Facts confirms that: (a) Curtis "needed sand (and gravel) to fulfill its subcontract" (R. 40); that borings by Curtis revealed "a great quantity of sand, and some gravel" in the area (R. 42); that Curtis under the contract (Ex. 6F) "had purchased the right to remove all commercially valuable sand and gravel on said lands of petitioners . . ." (R. 42); that Curtis in 1962, 1963 and during part of 1964 removed and paid for "the desired sand", "pursuant to the contract" which "expressed the meeting of the minds of the parties" and Curtis "agreed to purchase":

> "All of the sellers' right, title and interest in and to the sand and/or gravel" on the described lands. (R. 43)

The stipulation clearly states that Curtis "voluntarily, by its own unilateral decision, abandoned the contract following fulfillment of its subcontract" on the Lower Monumental Dam project. (R. 42)

The Government agreed that: "Any[4] commercially valuable sand or gravel on said lands of petitioners remaining when Curtis completed his subcontract on the dam was voluntarily abandoned by Curtis by its own decision in 1964, uninfluenced by petitioners." (R. 42) Thus, any so-called "abandonment" took place only after Curtis had removed all the sand and gravel he intended to purchase and was obligated to purchase under terms of the contract with petitioners. The right to take the sand and gravel to fulfill his subcontract for the dam construction project was obligatory upon Curtis.

The provision of the contract (Ex. No. 6F) for termination in the event of abandonment by Curtis was a mere safeguard against breach. Both parties knew and intended to implement the fulfillment of Curtis' formal subcontract and not to confer a mere option to purchase, remove and pay for sand and gravel. The contract was subject to specific performance by both of the parties; by Curtis because he had to have the material in great quantity in proximity to the damsite and by petitioners because they not only wanted to sell their sand and gravel but to level and improve their wastelands with the overburden soils "reasonably leveled off by bulldozer or otherwise" by Curtis. (R. 86)

It was estimated when the contract was delivered to Curtis that all the commercially valuable sand and gravel necessary for fulfillment of the Curtis subcontract would be removed within "approximately three

(4) No stipulation was made there was any commercially valuable sand or gravel left on the described lands when Curtis completed his Government contract.

(3) years from date of this Agreement (April 11, 1962) but that Purchaser shall, nevertheless, have the full time necessary to complete said contract" — (the subcontract at Lower Monumental Dam).

This clearly indicates the obligatory nature of the agreement, Ex. 6F. That contract, confirmed in Curtis, the purchaser, not only the "right" to remove sand and gravel but also all "title and interest in and to the sand and/or gravel" of petitioners as sellers, not as lessors or optioners or licensors. (R. 84)

There was no language in the contract reserving any "right, title or interest" in the commercially valuable sand and gravel unto petitioners. These property rights passed to Curtis when the contract was delivered, subject only to performance of his obligation to remove all the materials needed for performance of his subcontract and pay for the same at the agreed rate of 15c per cubic yard during the time he was performing his subcontract.

Every contract for sale of any form of capital asset reserves protections for the seller as well as the purchaser, including definition of what the consequences of abandonment and breach will be, and means of securing payment of the agreed purchase price.

The Tax Court overlooked the clear intention of the parties to the contract of sale and treated it as a mineral lease or royalty agreement, an over-simplification when petitioners were not engaged in mere exploitation of their sand and gravel.

Petitioners will argue that in fact and law these cases are clearly distinguishable from the cases relied upon by the Tax Court in its opinion. Several cases were misinterpreted by the Tax Court, including **Gowans v. Commissioner,** 246 F. (2d), 448 (C. A. 9, 1957), and **Laudenslager v. Commissioner,** 305 F (2d) 686, (C. A. 3, 1962) Cert. Den. 371 U. S. 947 (1963).

Petitioners reserved no economic interest in the sand and gravel sold and had no right to share in Curtis' earnings or profits under his subcontract on the federal dam project; nor did any economic interest "revert" to petitioners. The purchaser removed and paid for all he needed for performance of his subcontract.

The instant cases are clearly distinguishable, in fact and law from the five mineral lease, royalty or license agreement cases denied certiorari by the United States Supreme Court on December 4, 1967. See pp. 32-35 this Brief.

Petitioners received from Curtis the agreed sales price in installments, not payments out of production as in the lease, royalty and license cases.

THE TAX COURT OPINION
(R. 88-89)

The Tax Court opinion read too much into both the contract of sale (Joint Ex. 6F; R. 84-87) and the Stipulation of Facts. (R. 40-87) It also drew strained inferences therefrom, resulting in clearly erroneous in-

terpretation of the record and construction of the law related to the documents constituting the record.

To illustrate:

(a) While certifying correctly that Curtis removed the sand and gravel in volume necessary to fulfill and perform its subcontract on the dam project as contemplated by terms of the contract, the Tax Court implied that Curtis removed only "quantities of the desired sand . . . "(R. 91)

Actually, Curtis removed and paid for all of the commercially valuable sand and gravel he needed to completely perform the subcontract on the Government dam; not just a portion of the same;

(b) This error was then compounded when the Tax Court inferred that when ". . . Curtis performed its subcontract on the dam project . . ." he "abandoned the instant contract," and that ". . . the agreement was deemed terminated and the right to exploit the unmined sand and gravel reverted to Melvin and Richard . . ." (petitioners).

This is an amazing stretch of the true context of both the agreement (Ex. No. 6F) and the Stipulation of Facts itself which merely contemplated a sale of that specific volume of materials reasonably necessary to enable Curtis to perform his subcontract — the sale of specific and not an undefined volume of the materials. The parties did not estimate when the contract was delivered that there would remain any unmined

commercially valuable sand and gravel on the described wastelands after Curtis had performed his subcontract at the dam. The opinion injects an assumed reversion of unmined sand and gravel to the farmer petitioners when the parties only intended to implement fulfillment of the subcontract by Curtis by obligating him to remove enough material for that performance. (R. 9).

(c) The Tax Court states "as the contract between petitioners and Curtis was not intended to and did not effect an immediate sale of all the sand and gravel in place, it cannot be said that petitioners transferred their entire interest by means of the contract. Instead, they retained an economic interest in the sand and gravel in place . . ." (R. 91-92) The Tax Court overlooked the substance of the contract (Ex. No. 6F).

That contract was designed, as far as was practicable when it was delivered, to sell just enough material to allow fulfillment of Curtis' subcontract. Petitioners sold "all of the sellers' right, title and interest in and to the sand and/or gravel situate . . ." on described waste lands, exclusive of summerfallowed or cultivated portions of the land, in volume, ". . . required to enable Purchaser to complete its contract with the Prime Contractor . . . under which contract Purchaser has agreed to furnish all sand and gravel for construction of the south shore portion of said Dam . . ." (R. 90-91). Petitioners reserved no interest in any of the commercially valuable materials on the described land required by Curtis to perform said subcontract at the Dam. There

was a completed sale, obligating Curtis to remove and pay for all that specified volume of materials within an estimated three years and he performed both the subcontract and petitioners' contract for sale of capital assets.

The supposed reverter of "unmined sand and gravel" assumes facts not in the record nor reasonably to be inferred from the record as made by the parties.

Also, the Tax Court found such assumed "unmined sand and gravel" was "abandoned" to petitioners when, in fact, Curtis admittedly used all the commercially valuable materials on the described land "required to enable Purchaser to complete its contract . . ." (R. 91)

On such an analysis, sand and gravel could not be sold in place by a farmer (or any seller not engaged in sale of sand and gravel in the ordinary course of business), even in specifically described volume without deeding away the land itself.

(d) The Tax Court overlooked the language of the Stipulation of Facts which states: "The Curtis Construction Company voluntarily, by its own unilateral decision, abandoned the contract **following fulfillment of its subcontract** on the Lower Monumental Dam federal construction project . . .". This was the result intended when the contract, (Ex. No. 6F), was delivered, so there was no abandonment — only a **termination** of that contract. (emphasis ours)

The Tax Court read into the word "abandoned" a reverter of "unmined sand and gravel", when it is unrevealed in the Record that there were any commer-

cially valuable materials left on the described portion of petitioners' farmlands.

(e) The Tax Court isolated certain language in the Stipulation of Facts out of context to make a finding of reverter of "unmined sand and gravel" to erroneously establish "economic interest" in petitioners. The Stipulation of Facts (R. 42) admitted that "Any commercially valuable sand or gravel on said lands of petitioners when Curtis Construction Company so determined to stop exploiting said sand and gravel deposit was voluntarily abandoned by Curtis Construction Company by its own decision in 1964, uninfluenced by petitioners." Petitioners did not admit there was, in fact, any commercially valuable material left on their described wastelands. The Tax Court erroneously **assumed** there was. (Emphasis ours)

(f) The Tax Court erroneously failed to read that portion of the Stipulation reading: "It (Curtis) needed sand to fulfill its subcontract" (R. 42) with that portion of the sand and gravel contract, Ex. No. 6F, reading:

"This agreement should remain in full force and effect for such a time as shall be required to enable Purchaser to complete its contract with the Prime Contractor related to construction of Lower Monumental Dam on the Snake River under which contract Purchaser has agreed to furnish all sand and gravel for construction of the south shore portion of said Dam — Purchaser shall, nevertheless, have the full time necessary to complete said contract . . ." (R. 84).

Curtis had a right to all the sand and gravel needed to fulfill the subcontract and title was vested in him to that amount of the sand and gravel in place.

Any other language in the contract (Ex. No. 6F) and Stipulation of Facts not related to this dominant purpose of the sales agreement and the transaction as a whole to implement the performance of Curtis' subcontract by sale of enough sand and gravel to fulfill his commitment at the Dam, should have been considered mere surplusage.

(g) The Tax Court erroneously stated petitioners "retained an economic interest in the sand and gravel in place"; that payments from Curtis were mere compensation for removal of the sand and gravel on an "if and when" basis and, therefore, taxable as ordinary income. (R. 92)

The answer to this is that the contract obligated the petitioners to sell the volume of materials specified, from described lands, at the price stated, and obligated Curtis to remove those materials and pay for them on a per unit basis specified until his subcontract was performed with the Prime Contractor on the Dam project. This both parties did which is the strongest evidence of the intentions of the parties. The Tax Court interpretation rests upon speculative fiction aliunde the expressed intention of the parties to the contract and Stipulation of Facts. The form and substance of the sales contract and circumstances of performance seem to be clear, particularly when Curtis removed no sand

or gravel except for performance of his subcontract at the Dam. He then immediately terminated operations. The Court should not have assumed there remained any more commercially valuable sand or gravel on the tract of wasteland described in Ex. No. 6F.

Contrary to the Tax Court opinion (R. 92), petitioners did transfer all of their commercially valuable sand and gravel in volume necessary to enable Curtis to fulfill his subcontract. Both the sellers and the purchaser believed they had obligated themselves to so sell and purchase, remove and pay for the estimated volume of materials at a price and within the time required for performance of the subcontract. They transferred all "right, title and interest" to that sand and gravel in place. The purpose of the parties to the contract of sale was not to exhaust any "retained interest" as in **Palmer v. Bender**, 287 U.S. 551 (1933) or **Burton-Sutton Oil Co. v. Commissioner**, 328 U.S. 25 (1946) or like cases. (R. 92). Nor did petitioners look solely to the extraction of the sand and gravel for the return of their capital investment in those materials sold under Ex. No. 6F. They looked to the purchase price which Curtis agreed to pay, on a unit basis, under an installment contract of sale, not the mere right of Curtis to extract the sand and gravel on an "as, if and when basis." (R. 93) Curtis was legally bound by contract with petitioners to remove the material.

The Tax Court clearly erred in stating, under circumstances of these cases, that the $10.00 nominal consideration stated in the contract was the sole test of

the intention of the parties not to make a present sale of sand and gravel in place. Also, the Tax Court erred in its statement (R. 94): "Curtis was in no way obligated to remove any of the sand and gravel nor was it, by the terms of the contract, obligated to make any payments (apart from the $10.00 already noted) to the petitioners." This construction of the sale contract stultifies contract law and would preclude a sale or conditional sale of sand and gravel in place. It would forbid an installment contract for sale of materials in place and, as a practical matter, disallow per unit pricing based upon measurement at time of removal. No sand or gravel could be sold in place without subjecting the land owner to taxation at ordinary income rates. This would prohibit one not engaged in the sale of hard minerals in the ordinary course of business from obtaining the benefits of Section 1221 of the Internal Revenue Code. The Tax Court admits: "The duration of Curtis' right to remove the sand and gravel was to be measured solely by the duration of its subcontract on the dam project." (R. 94) However, the Tax Court again erred in stating: "At the termination of their contract, the right to exploit the remaining sand and gravel would revert to the petitioners." (R. 95) This patently overlooks the obligation under the contract (Ex. No. 6F) (R. 84) of petitioners and Curtis to perform by sale and purchase a definitely determinable volume of sand and gravel measured by the volume needed for performance of the subcontract by which Curtis was bound. The Tax Court infers nonperformance was implicit in the contract, Ex. No. 6F. To the contrary, petitioners obligations under the con-

tract were enforceable by suit for specific performance.

The Tax Court bypasses the clear language of Ex. No. 6F which "would appear to call for a present transfer . . ." (R. 95), and states ". . . we are led to conclude that the absence of an obligation, or an intent, to mine to exhaustion and the corresponding lack of a fixed personal liability on the part of Curtis to make further payments reveal that in fact the parties intended that petitioners would not relinquish their entire interest in the sand and gravel in place until actual removal and payment." (R. 95) This ignored the expressed intention to sell the specified volume of sand and gravel in place, not for the mere $10.00 nominal consideration but for fifteen cents (15c) times the cubic yards of sand and gravel later proved necessary to fulfill the subcontract. That title was intended to pass to Curtis to the materials in place is definitely demonstrated when Curtis was allowed to remove the sand and gravel and pay for it thirty (30) days after removal based on his own measurements, subject to check by petitioners. If title was not intended to be vested in Curtis from date of the contract, (Ex. No. 6F), petitioners would have either reserved title by express provision of the contract, or provided for payment before removal. This strong factor in the fact equation was erroneously ignored by the Tax Court, we submit, with full respect.

The Tax Court also erred, we believe, in its statement:

> ". . . the parties did not intend that all or a specified portion of the sand and gravel would be transferred at the date of the contract. The parties herein intended that Curtis would remove an unascertained portion which it later required in order to complete its subcontract. This finding is buttressed by the provision of the contract which measured its duration not in terms of ample time to remove all the sand and gravel but rather in terms of the requirements of the subcontract." (R. 97)

This obviously ignores the dominant intention of the parties to sell only the volume of materials measured by the then unknown, but definitely ascertainable requirements of Curtis for performance of the subcontract. It also over-emphasizes the fact that, speculatively, there might, at completion of the subcontract, remain unmined commercially valuable sand and gravel on petitioners' land. It also ignores the equally great possibility that the supply of all commercially valuable sand and gravel was exhausted.

The Tax Court should have found that Curtis had purchased all the materials "required to enable Purchaser to complete its contract . . ." (R. 91), including all unmined materials in place on petitioners' wastelands necessary to fulfill his subcontract at the Dam. When it proved he did not need all, it would seem immaterial whether any unmined materials of commercial value remained unused by Curtis. What was sold, removed and paid for was reported properly as the sale of a capital asset, subject to capital gains tax treatment on petitioners' returns. It is reasonable to contend petitioners sold all of their commercially

valuable sand and gravel to Curtis; that they estimated with Curtis that Curtis would need all of it to perform his subcontract; that if there was any left on the described land when the contract was performed, it was not commercially valuable either to Curtis or to petitioners. They neither reserved, nor retained any economic interest nor did any "economic interest" "revert" to petitioners. Magical reasoning cannot destroy the facts and circumstances, reasonably interpreted under the law of contracts and under tax law.

If Curtis had breached his contract and refused to remove the commercially valuable sand and gravel suitable for performance of his subcontract with the prime contractor, petitioners had the right to specific performance of that contract. As in **Crowell Land & Mineral Corporation v. Commissioner,** 242 F. (2d) 864 (C.A. 5, 1957), Curtis agreed to pay petitioners a fixed amount over a fixed or ascertainable period of time for a fixed or ascertainable volume of materials removed from a specifically described body of land.

In **Gowans v. Commissioner,** 246 F. (2d) 448 (C.A. 9, 1957) the purchaser was obligated to remove and pay for an ascertainable amount of material and it was held the taxpayer retained no "economic interest". Finally, the Tax Court opinion speaks too generally when it holds: ". . . the parties by their contract intended no more than to set forth the terms at which future transfers to Curtis would be consum-

mated at such times and in such quantity as it required them." (R. 97)

The Respondent stipulated Curtis was obligated to perform his subcontract with the Prime Contractor and to furnish all the sand and gravel for the south portion of the great dam; that borings on petitioners' land about two miles from the damsite showed suitable sand and gravel deposits; that petitioners contracted to sell all of that sand and gravel commercially valuable to Curtis required to perform his subcontract. The parties agreed to be obligated to perform and did perform the contract to the letter as a purchase and sale transaction involving a capital asset. It appears unrealistic and illogical to now say, after performance, that because, perhaps, Curtis did not exhaust all of the materials but only enough to fulfill his subcontract, some imagined "economic interest" either remained with or "reverted" to the taxpayers, thrusting them into large tax deficiencies not anticipated by their accountants or lawyers or themselves.

More than an exclusive right to mine the materials was granted to Curtis by these farmer taxpayers. They sold their sand and gravel in place so he could be enabled to perform his subcontract which required a definitely ascertainable volume of sand and gravel.

THE APPLICABLE CASES

In addition to those cases already cited above, we call this Court's attention to the following cases, some referred to by the Tax Court, some not considered in its Opinion:

In **Burnet v. Harmel,** 287 U.S. 103, 106, the Supreme Court stated the general rule that Congress, governing capital gains taxation, intended "to relieve the taxpayer from . . . excessive tax burdens on gains resulting from a conversion of capital investments, and to remove the deterrent effect of those burdens on such conversions".

Malat v. Riddell, 383 U.S. 569, 16 L. ed. (2d) 102, (Cal. 1966) held that Section 1221 Internal Revenue Code excludes capital assets "property held by taxpayers **primarily** for sale to customers in the ordinary course of business"; that "primarily" means "of first importance or principally" a part of the taxpayers' trade or business.

In **Turner v. United States,** 226 F. Supp. 970 (D. Me., S.D. 1964) a so-called lease was interpreted to be, in substance, a sale of sand and gravel properly taxable at capital gains rates. The Court held that installment payments based upon a fixed price per cubic yard were not, in effect, royalty payments or rentals carved out of the purchaser's resale price or profit. The Maine District Court quoted from **Laudenslager v. Commissioner,** 305 F (2d) 686 (C.A. 3, 1962), a case heavily relied upon by the Tax Court:

> "The owner has retained an economic interest if he has acquired by investment, any interest in the natural deposit in place, and has secured by any form of legal relationship, income derived from the extraction of the deposit, to which he must look for a return of his capital." (Citing **Palmer v. Bender,** 287 U.S. 551, 77 L. ed. 489 (1933) and

Gowans v. Commissioner, 246 F. (2d) 448 (C. A. 9, 1957).

In **Turner,** the court relied upon **Linehan v. Commissioner,** 297 F (2d) 276 (C. A. 1, 1961), and **Crowell Land & Mineral Corporation v. Commissioner,** 242 F. (2d) 864 (C. A. 5, 1957). The Court distinguished **Laudenslager, supra,** and **Albritton v. Commissioner,** 248 F. (2d) 49 (C.A. 5, 1957) because in **Albritton** payment for excavated sand and gravel was based upon a percentage of the retail sales price—not upon a fixed rate per cubic yard, indicating the seller in **Albritton** reserved an "economic interest" in the sand and gravel sold while in **Turner** the unit price per cubic yard was the purchase price and not rent or a royalty payment.

In **United States v. White,** 311 F. (2d) 399, 403 (C. A. 10, 1962), followed in **White v. United States,** 254 F. Supp. 894, 896, (D. C. Colo. 1966) the test was applied to a document referred to as a lease as in **Turner.** The Tenth Circuit, one of the chief mining areas of the Nation, held that substance and not form governs such a transaction; that the dominant purpose of the so-called lease was "in substance a sale rather than a reservation"; that where the purchaser had the right to remove the material or not, as he saw fit, "the economic interest principle advanced by the United States is wholly a legal fiction."

In **Brown v. United States,** (E. D. Ark. 1965), 66-1 U.S.T.C. 9153, the **Turner Case** was approved. The Court held when a farmer sold soil and materials from his farm for highway construction, "the weight of authority" allowed capital gains tax treatment to such

a transaction. A "sale" such as was made by petitioners to Curtis should be given its ordinary meaning in the non-tax world as the term is in no manner limited by the Code.

Commissioner v. Brown, 380 U.S. 563, 14 L. ed. (2d) 75, 82.

Bel v. United States, (D.C. La. 1958), 160 F. Supp. 360.

The First Circuit in **Linehan v. Commissioner,** supra presents a careful analysis of the sand and gravel sale cases, stating:

> "Turning then to the 'true substance' of the transactions between this taxpayer and those to whom he gave the right to remove sand and gravel from his property, it is evident that the taxpayer had no 'economic interest' in the material taken from his property after its severance, for in every instance he sold sand and gravel for fixed prices per cubic yard without reference to the prices received or the profits, if any, made by the exploiters."

Judge Medina, for the Second Circuit, in **Barker v. Commissioner,** (C. A. 2), 250 F. (2d) 195, reversed the Tax Court in a sand and gravel tax case and allowed capital gains tax treatment on long term sales amounting, in **all,** to about $190,000.00. The Second Circuit relied in part on the **Crowell** and **Gowans** cases from the Fifth and Ninth Circuits. See 250 F. (2d) at 198. The **Barker** case is important as it holds where title passes to the purchaser, there can be no basis for depletion allowance without an actual reservation of an economic interest in the sand and gravel contracted

to be sold and removed, 250 F. (2d) at 198. **Linehan v. Commissioner,** 297 F. (2d) 276 (C. A. 1)

The Commissioner stipulated that Curtis, under terms of the contract had "the right to remove all the commercially valuable sand and gravel on said lands of petitioners . . ." to fulfill the subcontract. (R. 42, Ex. 6F) That should, we assert, be enough to indicate that no reservation of economic interest was present or intended to exist by the parties.

> "It is evident that the taxpayer had no 'economic interest' in the material taken from his property after its severance, for in every instance he sold sand and gravel for fixed prices per cubic yard without reference to the prices received or the profits, if any, made by the exploiters."
>
> **Remer v. Commissioner,** (C. A. 8, 1958), 260 F. (2d) 337

THE MINERAL LEASE, ROYALTY AND LICENSE AGREEMENT CASES ARE NOT APPLICABLE

After the Tax Court opinion was filed, the Supreme Court of the United States denied certiorari on December 4, 1967, in five hard mineral cases. All five cases involved leases or royalty or license agreements for removal of materials. See **Peeler v. United States,** 377 F. (2d) 531 (CA 5, 1967); **Wood v. United States,** 377 F. 2d 300 (CA 5, 1967); **Royalton Stone Corp. v. Commissioner,** 67-2 U.S.T.C. Par. 9519, Docket Nos. 31056-62, 6/14/67 aff'd. Tax Court, C.C.H. Dec. 27, 964 [M], 25 TCM 570, T.C. Memo. 1966-109 (C.A.2, 1967); **Green v. United States,** 377 F. 2d 550 (C.A. 5, 1967); **Commissioner v. Royalton Stone Corp.**

The **Peeler, Wood** and **Green** cases were in the Fifth Circuit. The two **Royalton Stone Corporation** cases came from the Second Circuit.

The Fifth Circuit decided the **Peeler, Wood** and **Green** cases together on May 11, 1967. **Wood's** case involved a "Sand, Gravel and Rock Lease" of lands of the taxpayers.

The lessees were large scale sand and gravel operators who desired to exploit the taxpayers' sand and gravel deposits over a long, indefinite term, with annual minimum "royalty" payments of $15,000.00 plus additional "royalty" payments at 25-cents per cubic yard. **Wood** filed income tax returns claiming depletion allowances, later filing amended returns, claiming refunds of taxes paid on an ordinary income tax basis.

The Fifth Circuit upheld a District Court decision denying recovery by the taxpayers, stating (377 F. (2d) 300 at 305):

> "Clearly, where a 'typical' mineral lease is entered into by a landowner, there is a retention of an economic interest in the minerals. In any case, therefore, an inquiry into the presence of such an interest need go no further unless it can be shown that some characteristics of the agreement make it atypical."

We submit the Hair cases, now here in the Ninth Circuit for review, were clearly "atypical" as the Hairs neither retained, reserved nor provided for re-

verter of any economic interest in the sand and gravel sold and removed under a contract of sale. The contract (Ex. 6F) was not a lease or royalty agreement.

Both the petitioners and Curtis obligated themselves to perform the contract of sale for a specified amount of materials for a specified price, a specified purpose and performance within a specified time.

Following **Wood,** the Fifth Circuit in **Peeler** and **Green** pointed out that both those cases likewise involved leases, not contracts of sale; that mineral leases or royalty and license agreements for removal of sand and gravel, or hard minerals, involve reservation or retention of "economic interest" by the lessor **per se.**

The **Peeler** and **Green** cases were mere per curiam opinions, following **Wood.**

Peeler v. United States, 377 F. (2d) 531 (C. A. 5, 1967)

Green v. United States, 377 F. (2d) 550 (C.A. 5, 1967)

The **Peeler** lease was to run for 20 years and called for minimum yearly royalty and specified additional royalties at a fixed rate per ton — clearly not a contract of sale but a "typical mineral lease" as in **Wood.**

In **Green,** the mineral "lease contract" called for exploitation by a rock products company of lime rock deposits on the lands of the taxpayer for a ten year term, subject to renewal for a second term of ten

years, with minimum annual royalty and additional royalties at a fixed rate per ton of material removed.

The **Wood, Peeler** and **Green** cases, all mineral lease or royalty agreement cases, clearly indicate retention of "economic interest" by the landlord — taxpayers.

The Hair cases now before this Court involved a contract of sale, carefully drawn to sell a specified capital asset — sand and gravel — for a specified price to be paid following removal with performance within the time required by Curtis to perform his subcontract at Lower Monumental Dam.

Likewise the two **Royalton Stone Corporation** cases from the Second Circuit, supra, were true mineral lease or royalty cases irrefutably connoting retention of "economic interest" by the landowner under the rationale of **Wood's** case in the Fifth Circuit. **Royalton Stone Corporation v. Commissioner**, supra, **Commissioner v. Royalton Stone Corporation,** supra.

The lessee in those cases was not under duty to mine at all and actually was only a mere licensee.

The Second Circuit distinguished the **Royalton Stone Corporation** cases from **Crowell Land and Mineral Corporation v. Commissioner,** 242 F. (2d) 864 (C. A. 5, 1957) and **Barker v. Commissioner,** 250 F. (2d) 195 (C. A. 2, 1957) and from **Gowans v. Commissioner,** 246 F. (2d) 448 (C. A. 9, 1957) and followed the rationale of the mineral lease-royalty-license cases, particularly **Wood v. United States,** 377 F. (2d) 300 (C.A. 5, 1967).

The **Wood** case opinion also distinguished the **Linehan, Barker, Gowans, White** and **Crowell Land and Mineral Corporation** cases.

The **Crowell** case is from the Fifth Circuit and it was not overruled in **Wood's** case.

Commenting upon **Gowans,** the case in the Ninth Circuit relied upon by petitioners in the Tax Court, the Fifth Circuit in the **Wood's** decision said:

> ". . . The court further (in **Gowans**) noted that under the agreement the buyer was obligated to remove all of the sand and that the quantity of the sand had been determined 'with great accuracy' prior to execution of the agreement. The court also felt that the execution of a bank note as security for the buyer's performance gave the seller a source other than production from which to obtain his compensation under the contract. Viewing all the above circumstances, the court held that taxpayer had not retained an 'economic interest' in the sand . . ."
>
> **Wood v. Commissioner,** 377 F. (2d) 300 (C. A. 5, 1967), cert. den. December 4, 1967, No. 475, ...

Like **Gowans,** petitioners' cases are based upon a true contract of sale between sellers and purchaser of sand and gravel in quantity determined "with great accuracy" by borings before the contract was performed. (R. 42) We must emphasize that petitioners were farmers and not exploiters of sand and gravel deposits on their land and Curtis was a contractor, not engaged in the purchase and sale of sand and gravel for resale, but engaged in dam construction under definite contract. (R. 42, 45)

CONCLUSION

> "A bona fide sale was the intent of the parties and it was expressed in terms free from ambiguity throughout the instrument in the provisions and conditions it set out. Looking to the actual circumstances as well as the language of the contract of sale, there is no occasion or basis for resorting to legal niceties of interpretation to defeat the basic purpose and effect of the transaction." **Wood v. Commissioner**, 377 F. (2d) 300 (C. A. 5, 1967)

"Economic interest" cannot be proved by speculation when a seller attempts in good faith to sell sand and gravel as a capital asset to secure the benefit of Section 1221 of the Internal Revenue Code. See **Malat v. Riddell**, 383 U.S. 569 (Cal. 1966) 16 L. ed. (2d) 102.

Petitioners were not dealers in the sale of sand and gravel and they effected a genuine sale "of all usable sand and gravel in place, within specified areas and at specified cubic yard prices," with quantity "determined with great accuracy" as measured by the amount needed by Curtis for performance of his subcontract on the Snake River project. See, **Dann v. Commissioner**, 30 T.C. 499 (1958), reversed in **Linehan v. Commissioner**, 297 F. (2d) 276 (C. A. 1, 1961)

The Tax Court confused the instant cases with mineral lease, royalty and license cases and refused to follow the weight of sound authority symbolized by the **Gowans, Barker, Remer, Linehan, White** and **Crowell Land and Mineral Corporation** cases, supra.

The parties intended title to pass and it did pass to all sand and gravel necessary to complete the purchaser's subcontract. The Tax Court decision should be reversed.

Respectfully submitted,

CAMERON SHERWOOD
of SHERWOOD, TUGMAN and
GREEN

Attorneys for Petitioners

601-611 Baker Building

Walla Walla, Washington 99362

Telephone: JAckson 9-1540

APPENDIX OF EXHIBITS REFERRED TO HEREIN

All of the exhibits were stipulated to be Joint Exhibits of Petitioners and Respondent. (R. 40-48)

Exhibit No.	Description	Stipulated Into Record
1A	1962 Return, Melvin Hair et ux	R. 41, 49-56
2B	1963 Return, Melvin Hair et ux	R. 41, 57-65
3C	1962 Return, Richard Hair et ux	R. 41, 67-73
4D	1963 Return, Richard Hair et ux	R. 41, 74-82
5E	Map describing land of Petitioners from which sand and gravel was sold and removed	R. 41, 83
6F	Contract dated April 11, 1962, between Petitioners and Curtis Construction Company	R. 42, 84-87

APPENDIX OF JOINT EXHIBITS REFERRED TO IN THIS BRIEF

CERTIFICATE OF COUNSEL

Cameron Sherwood, one of attorneys for Petitioners, states:

I certify that, in connection with the preparation of this Brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing Brief is in full compliance with these Rules.

CAMERON SHERWOOD
of SHERWOOD, TUGMAN and GREEN

Attorneys for Petitioners

601-611 Baker Building

Walla Walla, Washington 99362

Telephone: JAckson 9-1540

Nos. 22,047 and 22,047-A

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MELVIN L. HAIR and ESTHER HAIR,

Petitioners

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent

RICHARD E. HAIR and NAOMI L. HAIR,

Petitioners

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent

ON PETITIONS FOR REVIEW OF THE DECISIONS OF THE
TAX COURT OF THE UNITED STATES

BRIEF FOR THE RESPONDENT

MITCHELL ROGOVIN,
Assistant Attorney General.

MEYER ROTHWACKS,
GRANT W. WIPRUD,
MARIAN HALLEY,
Attorneys,
Department of Justice,
Washington, D.C. 20530.

INDEX

Page

CITATIONS

Cases:

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 22,047

MELVIN L. HAIR and ESTHER HAIR,

Petitioners

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent

No. 22,047-A

RICHARD E. HAIR and NAOMI L. HAIR,

Petitioners

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent

ON PETITIONS FOR REVIEW OF THE DECISIONS OF THE
TAX COURT OF THE UNITED STATES

BRIEF FOR THE RESPONDENT

OPINION BELOW

The memorandum opinion of the Tax Court (R. 88-98) is not officially reported.

JURISDICTION

These consolidated petitions for review (R. 108-116, 121-128) involve federal income taxes for the taxable years 1962 and 1963. On March 11, 1965, and May 25, 1965, the Commissioner of Internal Revenue mailed to taxpayers Richard E. and Naomi L. Hair notices of deficiency asserting deficiencies in the aggregate amount of $4,823.83. (R. 27-29, 30-32.) On the same dates the Commissioner of Internal Revenue mailed to taxpayers Melvin L. and Esther Hair notices of deficiency asserting deficiencies in the aggregate amount of $5,424.25. (R. 11-13, 14-16.) Within ninety days thereafter, on June 10, 1965, taxpayers filed a petition with the Tax Court for a redetermination of those deficiencies under the provisions of Section 6213 of the Internal Revenue Code of 1954. On July 26, 1965, the Commissioner filed a motion to require the taxpayers to file separate and amended petitions. On August 2, 1965, the Tax Court, granting the Commissioner's motion, ordered the taxpayers to file separate and amended petitions. These amended petitions were filed on August 18, 1965. (R. 1-16, 17-32.) The decisions of the Tax Court were entered on April 3, 1967. (R. 105-106, 107.) The case is brought to this Court by petitions for review filed June 19, 1967 (R. 108-116, 121-128), within the three-month period prescribed in Section 7483 of the Internal Revenue Code of 1954. Jurisdiction is conferred on this Court by Section 7482 of that Code.

QUESTION PRESENTED

Whether the District Court correctly ruled that payments received by the taxpayers of 15 cents per cubic yard of sand and gravel removed from their land were ordinary income subject to the depletion allowance, not capital gain from a sale as taxpayers contend.

STATUTES AND REGULATIONS INVOLVED

Internal Revenue Code of 1954:

SEC. 61. GROSS INCOME DEFINED.

(a) General Definition.--Except as otherwise provided in this subtitle, gross income means all income from whatever source derived, including (but not limited to) the following items:

* * * * *

(6) Royalties;

* * * * *

(26 U.S.C. 1964 ed., Sec. 61.)

SEC. 611. ALLOWANCE OF DEDUCTION FOR DEPLETION.

(a) General Rule.--In the case of mines, oil and gas wells, other natural deposits, * * * there shall be allowed as a deduction in computing taxable income a reasonable allowance for depletion * * *, according to the peculiar conditions in each case; such reasonable allowance in all cases to be made under regulations prescribed by the Secretary or his delegate. * * *

* * * * *

(26 U.S.C. 1964 ed., Sec. 611.)

SEC. 613. [as amended by Sec. 302(a), Public Debt and Tax Rate Extension Act of 1960, P.L. 86-564, 74 Stat. 290]. PERCENTAGE DEPLETION

(a) General Rule.--In the case of the mines, wells, and other natural deposits listed in subsection (b), the allowance for depletion under section 611 shall be the percentage, specified in subsection (b), of the gross income from the property * * *

(b) Percentage Depletion Rates.--The mines, wells, and other natural deposits, and the percentages, referred to in subsection (a) are as follows:

*   *   *   *   *

(5) 5 percent--

(A) gravel * * * and stone * * *;

*   *   *   *   *

(26 U.S.C. 1964 ed., Sec. 613.)

Treasury Regulations on Income Tax (1954 Code):

§ 1.611-1 Allowance of deduction for depletion.

*   *   *   *   *

(b) Economic interest. (1) Annual depletion deductions are allowed only to the owner of an economic interest in mineral deposits or standing timber. An economic interest is possessed in every case in which the taxpayer has acquired by investment any interest in mineral in place or standing timber and secures, by any form of legal relationship, income derived from the extraction of the mineral or severance of the timber, to which he must look for a return of his capital. * * *

*   *   *   *   *

(26 C.F.R., Sec. 1.611-1.)

STATEMENT

The facts in this case, as stipulated by the parties and as found by the Tax Court (R. 88-98), are as follows:

Melvin L. Hair and Esther Hair, and Richard E. Hair and Naomi L. Hair, are husbands and wives. Melvin and Richard, who are both farmers, are brothers. On the death of their mother, Edith A. Hair, on October 23, 1954, Melvin and Richard (hereinafter "the taxpayers")[1/] became the owner of an undivided one-half interest in certain lands located in the State of Washington. Parts of these lands were suitable for farming and parts were considered to be wastelands. (R. 89-90.)

Some time after taxpayers became the owners of the above-mentioned lands, test borings which showed deposits of sand and gravel were conducted on the properties by the Curtis Construction Company (hereinafter "Curtis"). Curtis, a subcontractor on a dam project, had an agreement with the prime contractor under which he was to furnish all sand and gravel for construction of the south shore portion of the dam. (R. 90.)

1/ Esther Hair and Naomi L. Hair are parties to this litigation solely by virtue of filing joint returns with their husbands.

On April 11, 1962, taxpayers as "Seller" entered a written agreement with Curtis as "Purchaser".[2/] This agreement provided, _inter alia_ (R. 90-91):

> That in consideration of the sum of Ten Dollars ($10.00), receipt of which is hereby acknowledged, and of the stipulations herein contained, and the payments to be made as hereinafter specified, the Seller hereby agrees to purchase from the seller, the following:
>
> All of the Sellers' right, title and interest in and to the sand and/or gravel situate upon the following described premises: * * *
>
> This agreement shall remain in full force and effect for such a time as shall be required to enable Purchaser to complete its contract with the Prime Contractor related to construction of Lower Monumental Dam on the Snake River under which contract Purchaser has agreed to furnish all sand and gravel for construction of the south shore portion of said Dam. It is estimated that performance of the said contract by Purchaser shall take approximately three (3) years from the date of this Agreement but that Purchaser shall, nevertheless, have the full time necessary to complete said contract. In the event of the abandonment of said contract by Purchaser, this contract shall be deemed terminated.

2/ The parties have stipulated that though the agreement denominates as "Seller" the "Edith A. Hair Estate", for reasons peculiar to local law, for purpose of the cause at bar, the persons therein described as "Seller" were, in reality, Melvin and Richard. Neither Melvin nor Richard had ever previously engaged in the business of selling or marketing sand and gravel. (R. 45, 90.)

> Purchaser agrees to pay unto Seller Fifteen Cents (15¢) per cubic yard of sand and/or gravel removed from the said lands of Seller pursuant to this Agreement. * * *

During the years 1962, 1963 and 1964, Curtis removed quantities of sand and made payments to taxpayers as required by their contract. In 1964 Curtis completed performance of its subcontract on the dam project and abandoned the instant contract. In accordance with its terms, the agreement was deemed terminated and the right to exploit the unmined sand and gravel reverted to the taxpayers. (R. 91.)

On their returns for the years 1962 and 1963 taxpayers reported the payments received from Curtis as income from the sale of a capital asset, that is, as deferred payments from a sale in 1962 of the sand and gravel in place. The Commissioner, in his statutory notices of deficiency, determined that the amounts received under the contract represented ordinary income and not capital gain as reported. (R. 91.) Deficiencies were determined as follows (R. 88):

Taxpayer	Year	Amount
Melvin L. and Esther Hair	1962	$ 294.63
	1963	5,129.62
Richard E. and Naomi L. Hair	1962	351.72
	1963	4,472.11

Following receipt of the notices of deficiency taxpayers filed timely petitions in the Tax Court. (R. 41.) The Tax Court

held that the amounts taxpayers received from Curtis were properly taxable as ordinary income (R. 98) because the taxpayers retained an economic interest in the sand and gravel in place (R. 97). These timely petitions for review followed. (R. 108-116, 121-128.)

SUMMARY OF ARGUMENT

Taxpayers transferred the right to exploit sand and gravel deposits on their land to a construction company in consideration of $10 plus 15 cents per cubic yard of sand and gravel extracted and removed. The construction company was not obligated to mine or pay for any particular amount of materials. The Tax Court was clearly correct in ruling that the payments were depletable ordinary income to the taxpayers, not capital gain from a sale as they contend.

Under the "economic interest" concept evolved by the Supreme Court, the owner of a depletable capital interest in minerals in place retains that interest so long as he continues to look solely to income derived from extraction for a return of his capital. Thus a landowner who transfers operating rights in mineral deposits on his land for royalty payments dependent upon extraction has not effected a capital transaction; he has retained his "economic interest" and receives the payments as depletable ordinary income. The Supreme Court has so held, and has made it clear that the rule applies without regard to the kind of mineral involved or the form in which the transaction is cast.

Five Courts of Appeals have applied that rule to the type of transaction here involved. Their decisions squarely support the decision of the Tax Court in the instant case, and we submit that it should be affirmed.

ARGUMENT

THE TAX COURT CORRECTLY RULED THAT THE PAYMENTS DEPENDENT UPON EXTRACTION OF SAND AND GRAVEL WERE ORDINARY INCOME TO TAXPAYERS SUBJECT TO THE DEPLETION ALLOWANCE

A. Introduction

The sole issue in this case is whether the payments to taxpayers of 15 cents per cubic yard of sand and gravel removed were the capital proceeds of a sale, as the taxpayers contend (Br. 14), or ordinary income subject to the depletion allowance, as the Tax Court held (R. 98).

Taxpayers owned land on which deposits of sand and gravel were discovered. They transferred to Curtis the right to remove as much sand and gravel as Curtis needed to complete its subcontract on a dam project, over whatever period of time might be necessary to effect such removal. Curtis was not obligated to remove or pay for any particular quantity of materials; it was obligated only to make the nominal downpayment of $10 and thereafter to pay 15 cents per cubic yard for whatever amount of materials it actually extracted and removed. In the event that Curtis abandoned its subcontract on the dam project, its contract with the taxpayers was automatically terminated.

Notwithstanding the terminology of sale employed, the contract between taxpayers and Curtis did not constitute an outright sale of taxpayers' mineral deposits or any specific portion thereof; it reflected a leasing or licensing arrangement under which taxpayers received the cubic yardage payments as ordinary income subject to the depletion allowance.

B. The substance of the agreement is controlling for federal tax purposes, regardless of the terminology employed

Taxpayers contend (Br. 13 *et seq.*) that because their agreement with Curtis was couched in the terminology of a sale, and because they intended a sale, the transaction should be treated as a capital transaction. This contention is unsound.

The tax consequences of a transaction are determined by its substance, not its form. *Gregory* v. *Helvering*, 293 U.S. 465. More particularly, with respect to transfers of mineral rights, the Supreme Court held in *Burton-Sutton Oil Co.* v. *Commissioner*, 328 U.S. 25, 32:

> Whether the instrument creating the rights is a lease, a sublease or an assignment has not been deemed significant from the federal tax viewpoint in determining whether or not the taxpayer had an economic interest in the oil in place. *Palmer* v. *Bender*, 287 U.S. 551, 557.

As the Court said earlier in *Palmer* v. *Bender*, 287 U.S. 551, 555-556:

> We look to the statute itself and to the decisions construing it to ascertain to

> what interests it is to be applied, and then to the particular interests secured to the two partnerships by the instruments in question to ascertain whether they come within the statutory provisions. The formal attributes of those instruments or the descriptive terminology which may be applied to them in the local law are both irrelevant.

With specific reference to retention or divestiture of a depletable "economic interest" by a transferor of mineral rights, the Court said that the question (p. 557) "does not depend upon his [the transferor's] retention of ownership or any other particular form of interest in the mineral content of the land", but solely upon whether or not he retains the requisite right to share in production, discussed below.

Nor are the tax consequences of taxpayers' agreement with Curtis affected by any subjective "intention" on the part of taxpayers to effect a "sale", i.e., to secure capital gains treatment rather than the lesser benefit of a 5 per cent depletion allowance. The Third Circuit recently held in Commissioner v. Danielson, 378 F. 2d 771, 775, certiorari denied, October 9, 1967, 36 U.S. Law Week 3142, that --

> a party can challenge the tax consequences of his agreement as construed by the Commissioner only by adducing proof which in an action between the parties to the agreement would be admissible to alter that construction or to show its unenforceability because of mistake, undue influence, fraud, duress, etc.

Here the taxpayers do not suggest that they intended some other

arrangement with Curtis than that reflected in the terms of the agreement. They must, accordingly, abide by the tax consequences of the agreement as written and executed.

C. The controlling principles

Section 611(a) of the Internal Revenue Code of 1954, supra, allows as a deduction in computing taxable income, in the case of mines and other natural deposits, "a reasonable allowance for depletion * * * according to the peculiar conditions in each case; such reasonable allowance in all cases to be made under regulations prescribed by the Secretary or his delegate". In the case of sand and gravel and allied materials, a percentage depletion deduction in the amount of five per cent of the gross income from the property was authorized by the statutory provision (Section 613(b)(5)(A), supra), applicable to the taxable years involved.

The depletion allowance "is based on the theory that the extraction of minerals gradually exhausts the capital investment in the mineral deposit", and "is designed to permit a recoupment of the owner's capital investment in the minerals so that when the minerals are exhausted, the owner's capital is unimpaired". Commissioner v. Southwest Expl. Co., 350 U.S. 308, 312. Accord, Anderson v. Helvering, 310 U.S. 404, 407-408; Parsons v. Smith, 359 U.S. 215, 220; United States v. Cannelton Sewer Pipe Co., 364 U.S. 76, 81; Paragon Coal Co. v. Commissioner, 380 U.S. 624, 626.

So long as the owner of a capital interest in minerals in place retains such interest, the depletion deduction is the only permissible way in which he may be compensated for the disposition,

through production, of his capital asset. He is not entitled to capital gain treatment of production income, whether he operates the property himself or, as lessor, receives a share of the production income in the form of royalties. This was settled at an early date in Burnet v. Harmel, 287 U.S. 103. There the Supreme Court considered the contention of a lessor of an oil and gas property that a lease bonus and royalties received under the lease were taxable as capital gain. Rejecting the contention, the Court held that taxing the bonus and royalties as ordinary income did not produce the hardship at which the capital gains provisions were directed, i.e., the realization and taxation in one year of a total appreciation in value which had taken place over a considerable period of time. The Court regarded it as immaterial for federal tax purposes that the lease, under local law, effected a transfer of title.

A month after Burnet v. Harmel was decided, the Supreme Court took the same view as to hard minerals in Bankers Coal Co. v. Burnet, 287 U.S. 308. There the taxpayer-lessor had transferred operating rights in coal deposits in consideration of a per ton royalty with an annual minimum royalty guaranteed. The taxpayer contended that the royalties were capital gain from a sale. The court again rejected this view of royalties paid under a mineral lease and, relying upon Burnet v. Harmel, supra, said (p. 311):

> The considerations which led to the conclusion that the bonus and royalties paid to the lessor of Texas oil lands are taxable income and not a conversion of capital, as upon a sale of capital assets, are equally applicable to West Virginia coal leases, whether the title to the coal in place passes to the lessee at the date of the lease, or only upon severance by the lessee.

Shortly after deciding Bankers Coal Co., supra, the Supreme Court enunciated the "economic interest" concept for the first time in Palmer v. Bender, 287 U.S. 551. This concept, fully consonant with the earlier decisions, embodied specific tests for determining whether, in a mineral transaction, a taxpayer has acquired or retained a depletable interest in minerals in place. The Court defined an "economic interest" (287 U.S., p. 557) in terms of two requirements which are set forth in current Treasury Regulations on Income Tax (1954 Code), Section 1.611-1(b)(1), supra, as follows:

> An economic interest is possessed in every case in which the taxpayer has acquired by investment any interest in mineral in place * * * and secures, by any form of legal relationship, income derived from the extraction of the mineral * * *, to which he must look for a return of his capital.

Under these requirements, it may be noted, it is immaterial whether the taxpayer has or retains the operating rights. Hence, a transfer of operating rights, as in the instant case, does not divest a taxpayer of his depletable economic interest. He retains that interest if he continues to "look solely to the extraction" of the mineral for a return of his capital. Commissioner v. Southwest Expl. Co., 350 U.S. 308, 314.

In Palmer v. Bender, 287 U.S. 551 the taxpayers, who owned oil and gas leasehold interests, transferred the operating rights for bonuses, royalties and production payments. The court held, as it had in Burnet v. Harmel and Bankers Coal Co., supra, that the considerations for the transfer were depletable ordinary income, not capital gain from a sale as the taxpayers contended.

Transactions which do and do not constitute sales have been contrasted by the Supreme Court in Burton-Sutton Oil Co. v. Commissioner, 328 U.S. 25, 35-36, as follows:

> * * * there must be a determination under federal tax law as to "whether the transferor has made an absolute sale or has retained" such economic interest as we have just described in the preceding paragraph. * * * We have said that the instrument should be construed as a sale when a large cash payment was made with a reserved payment that could be satisfied by future sales of the transferred property without extraction of the oil. Obviously, there could be no depletion without extraction. Anderson v. Helvering, 310 U.S. 404, 412. On the other hand, we have construed an assignment of oil leases for cash and a deferred payment, "payable out of oil only, if, as and when produced," as the reservation of an economic interest * * * not a sale. Thomas v. Perkins, 301 U.S. 655.

Over the years, the Supreme Court has recognized that the requisite continuing dependence on extraction may take a variety of forms. Thus, it has recognized that an economic interest is retained where the payments are in cash rather than in kind, Helvering v. Twin Bell Syndicate, 293 U.S. 312; or constitute a percentage of gross production, Burnet v. Harmel, 287 U.S. 103; or

a percentage of the net profits, Burton-Sutton Oil Co. v. Commissioner, supra. And payment is deemed no less dependent upon extraction because the transferor receives an initial lump sum payment (or "bonus") in addition to the right to future royalties. Burnet v. Harmel, supra; Thomas v. Perkins, 301 U.S. 655.

Similarly, payments in a fixed amount per unit of minerals removed are depletable ordinary income, not capital gain, to a transferor of operating rights. Bankers Coal Co. v. Burnet, 287 U.S. 308. Twelve years after that decision, in Douglas v. Commissioner, 322 U.S. 275, the Supreme Court again dealt with a transfer of operating rights in hard minerals in consideration of a fixed royalty per ton with an annual minimum payment guaranteed. While the precise issue was the validity of Treasury Regulations requiring restoration of depletion deductions to basis in the absence of production, the Court recognized that the royalty payments clearly were depletable ordinary income to the transferor in the first instance.

In accord with the Supreme Court's decisions, five Courts of Appeals have recently held in cases involving hard minerals (usually sand and gravel) that payments in a fixed amount per unit of minerals removed were not capital gain from a sale but depletable ordinary income to the taxpayers, who had transferred the operating rights in consideration of such royalty payments.

Royalton Stone Corp. v. Commissioner, 379 F. 2d 298 (C.A. 2d), certiorari denied on December 5, 1967 (36 U.S. Law Week 3227); Wood v. United States, 377 F. 2d 300 (C.A. 5th), certiorari denied on December 5, 1967 (36 U.S. Law Week 3227); United States v. Peeler, 377 F. 2d 531 (C.A. 5th), certiorari denied on December 5, 1967 (36 U.S. Law Week 3227); United States v. Green, 377 F. 2d 550 (C.A. 5th), certiorari denied on December 5, 1967 (36 U.S. Law Week 3227); Schreiber v. United States, 382 F. 2d 553 (C.A. 7th); Freund v. United States, 367 F. 2d 776 (C.A. 7th); Rabiner v. Bacon, 373 F. 2d 537 (C.A. 8th); Laudenslager v. Commissioner, 305 F. 2d 686 (C.A. 3d), certiorari denied, 371 U.S. 947.

There is one appellate decision, Linehan v. Commissioner, 297 F. 2d 276 (C.A. 1st), which cannot be reconciled with the above-cited Supreme Court and appellate decisions. In Linehan the court held that a transfer of operating rights in hard minerals for royalty payments measured by quantity was a sale, reasoning that (p. 279) --

> the taxpayer had no "economic interest" in the material taken from his property after its severance, for in every instance he sold sand and gravel for fixed prices per cubic yard without reference to the prices received or the profits, if any, made by the exploiters.

This rationale is in direct conflict with the Supreme Court's decision in Bankers Coal Co. v. Burnet, supra. It has not been adopted by any other appellate court. To the contrary, it has

been rejected by the Fifth Circuit in Wood, the Third Circuit in Laudenslager and the Eighth Circuit in Rabiner. And the Second Circuit ignored it in Royalton Stone, albeit the taxpayers in that case expressly relied upon Linehan.

The First Circuit's view that a taxpayer transfers his depletable interest in a capital transaction unless he retains his interest in the minerals "after severance", and shares in the proceeds or profits from the sale of the minerals, is clearly at odds with the Supreme Court's formulation and application of the "economic interest" concept. The test is whether the transferor has retained an "economic interest" in minerals in place (Palmer v. Bender, supra). And there is no requirement that the transferor share in the proceeds or profits from mineral sales; it is enough if the transferor "secures, by any form of legal relationship, income derived from the extraction of the mineral * * *, to which he must look for a return of his capital". (Emphasis supplied.) Treasury Regulations, Section 1.611-1(b)(1); Palmer v. Bender, supra, p. 557. As the Supreme Court reiterated in the more recent decision in Commissioner v. Southwest Expl. Co., supra, p. 314: "The second factor has been interpreted to mean that the taxpayer must look solely to the extraction of oil or gas for a return of his capital".

The First Circuit invoked Kirby Petroleum Co. v. Commissioner, 326 U.S. 599, but that case did not purport to modify or extend the "economic interest" concept. The transferor in Kirby Petroleum did

indeed share in the profits of the transferee, through a retained net profits interest; and the Court held that a transferor retains his "economic interest" through retention of a net profits interest as well as through reservation of other forms of royalties. But the Court did not hold that the transferor must share in post-severance profits. Rather, the Court held (326 U.S. at p. 603):

> The test of the right to depletion is whether the taxpayer has a capital investment in the oil in place which is necessarily reduced as the oil is extracted. See Anderson v. Helvering, 310 U.S. 404, 407. [Emphasis supplied.]

Linehan was an unusual case on its facts. It involved an agreement to excavate a tract of raised elevation down to a specified grade, in preparation for industrial use of the property as so graded, and there is some indication that the First Circuit viewed the transaction as the completed sale of a specific total quantity of minerals. In any event, the rationale of the case is simply wrong.

D. Taxpayers retained their "economic interest" and received the payments for minerals removed as depletable ordinary income

As pointed out above, five Court of Appeals have recently held in cases involving a transfer of operating rights in hard minerals (usually sand and gravel) that payment of a fixed amount per unit of minerals removed, as consideration for the transfer, was ordinary income to the transferor subject to the depletion allowance -- the Second Circuit in Royalton Stone Corp. v.

Commissioner, supra; the Fifth Circuit in Wood v. United States, supra, and the companion Peeler and Green cases; the Seventh Circuit in Schreiber v. United States, supra, and Freund v. United States, supra; the Eighth Circuit in Rabiner v. Bacon, supra; and the Third Circuit in Laudenslager v. Commissioner, supra. These decisions have all made it clear that form was not controlling, and that the critical factor was the transferor's continuing dependence upon extraction for a return of his capital. As noted, the Supreme Court has denied the taxpayers' petitions for certiorari in Royalton Stone, Wood, Peeler, Green and Laudenslager.

The instant taxpayers, faced with the foregoing decisions, have devoted their brief largely to the contention that they are entitled to capital gain treatment under this Court's decision in Gowans v. Commissioner, 246 F. 2d 448, and cognate cases. Taxpayers' reliance is misplaced.

In Gowans the transferee of operating rights had both the right and the obligation to remove a specific total quantity of black sand from a designated deposit, during a fixed period, in consideration of a fixed total price, payable in any event. While the total purchase price was prorated over the period of extraction in payments measured by quantity, it was independent of extraction not only in the operating company's ultimate obligation to pay the whole amount but in the securing of this obligation by the company's

bank note for the total sum. On these particular facts, this Court held that the parties had effected a capital transaction, i.e., the outright sale of the designated quantity of sand for a fixed price. The Second Circuit reached the same result on similar facts in Barker v. Commissioner, 250 F. 2d 195 -- a decision which the same court has characterized and distinguished in Royalton Stone as one (379 F. 2d at p. 300) "where there was an obligation to pay no matter what the extent of the minerals extracted * * *."

The logic of Gowans and Barker is, of course, that the continuing dependence upon extraction which marks an "economic interest" is absent where a fixed quantity of minerals is sold for a fixed total price, payable in any event. The instant taxpayers invoke this logic repeatedly, asserting, for example, that (Br. 27): "Curtis agreed to pay petitioners a fixed amount over a fixed or ascertainable period of time for a fixed or ascertainable volume of materials removed from a specifically described body of land".[3/] These assertions simply do not accord with the substantive terms of the agreement involved.

3/ In another case pending before this Court which presents the same issue as the instant case (Alkire v. Riddell, No. 22,070), it is interesting to note that the taxpayers rely principally upon other arguments as, e.g., that the "economic interest" test is not applicable in sand and gravel cases.

Notwithstanding the general recitation at the beginning of the agreement that taxpayers were selling to Curtis "all" of the sand and gravel on their land, it is clear from the ensuing specific provisions that the contract was in fact an open-end arrangement. Curtis did not undertake to purchase any fixed (or even estimated) quantity of materials, much less to pay a fixed total price in any event. Curtis was obligated only to pay 15 cents per cubic yard for such sand and gravel as it might remove from taxpayers' land, in order to meet its needs for such materials under its subcontract on the dam. It does not appear in the agreement or elsewhere in the record that the parties knew, when they executed the contract, the amount of materials Curtis would need. And even if they had known, the fact would be immaterial. By its own terms the agreement would be automatically terminated if at any time and for any reason, Curtis abandoned its subcontract on the dam. But the plain fact is that no specific or estimated quantity of materials was conveyed by the agreement, and that when Curtis had completed its subcontract (if it did not abandon it) its right to exploit any unmined sand and gravel expired.

In short, the agreement was like the open-end contract in Royalton Stone, which was also cast in the form of a "sale", but which the Second Circuit held to be a mere leasing or licensing arrangement, saying (379 F. 2d at p. 300):

> There was no requirement that all the minerals be extracted and the agreements fixed no maximum or minimum amount which

> the corporations were to quarry. In fact the corporations had no affirmative duty to mine at all. They could terminate the quarrying at any time without any liability except to pay 20 cents a ton for the minerals already quarried. If the corporations failed or refused to quarry, the agreements provide for no obligation to pay any amount whatever.

So, here, Curtis had no affirmative duty to mine at all, and could terminate their operations at any time without any liability except to pay for the minerals already mined.

In view of the recent decisions of the Fifth and Eighth Circuits discussed above, little need be said with respect to earlier decisions in those circuits invoked by taxpayers, i.e., Crowell Land & Min. Corp. v. Commissioner, 242 F. 2d 864 (C.A. 5th), and Commissioner v. Remer, 260 F. 2d 337 (C.A. 8th). The Second Circuit in Royalton Stone distinguished Crowell as a case where a fixed purchase price was payable over a fixed period, regardless of the amount of minerals extracted. The Fifth Circuit itself, in Wood, disapproved of the emphasis in Crowell on the wording of the governing instrument as one of sale, and also disapproved of the earlier decision to the extent that it based capital gains treatment on the fact that per tonnage payments were involved. Similarly, the Eighth Circuit in Rabiner v. Bacon, supra, which squarely supports the instant decision, has limited Remer to its particular facts.

Finally, taxpayers' citation of United States v. White, 311 F. 2d 399 (C.A. 10th), is pointless. In White the Tenth Circuit

held only that a large lump sum down payment was capital gain. As to future royalties, the court said (p. 402): "We do not reach the question of whether the payments to be made from production amount to the reservation of an economic interest which would require a different tax treatment of the income from that source". If anything, this indicates a recognition that the "economic interest" concept would control the reserved question.

CONCLUSION

For the reasons states above, the decisions of the Tax Court were correct and should be affirmed.

Respectfully submitted,

MITCHELL ROGOVIN,
Assistant Attorney General.

MEYER ROTHWACKS,
GRANT W. WIPRUD,
MARIAN HALLEY,
Attorneys,
Department of Justice,
Washington, D.C. 20530.

FEBRUARY, 1968.

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19, and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Dated: _______ day of ______________________,1968.

MARIAN HALLEY,
Attorney.

22047 and 22047-A (Consolidated)

UNITED STATES COURT of APPEALS

FOR THE NINTH CIRCUIT

MELVIN L. HAIR and ESTHER HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

AND

RICHARD E. HAIR and NAOMI L. HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

On Petitions For Review of Decisions of The Tax Court of the United States (Tax Court Nos. 3297-65 and 5001-65)

REPLY BRIEF OF PETITIONERS

CAMERON SHERWOOD

SHERWOOD, TUGMAN & GREEN
601-611 Baker Building
Walla Walla, Washington 99362

Attorneys for Petitioners

22047 and 22047-A (Consolidated)

UNITED STATES COURT of APPEALS

FOR THE NINTH CIRCUIT

MELVIN L. HAIR and ESTHER HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

AND

RICHARD E. HAIR and NAOMI L. HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

On Petitions For Review of Decisions of The Tax Court of the United States (Tax Court Nos. 3297-65 and 5001-65)

REPLY BRIEF OF PETITIONERS

CAMERON SHERWOOD

SHERWOOD, TUGMAN & GREEN

601-611 Baker Building

Walla Walla, Washington 99362

Attorneys for Petitioners

INDEX

CASES

STATUTES

TEXTS

UNITED STATES COURT of APPEALS
FOR THE NINTH CIRCUIT
22047 and 22047-A (Consolidated)

MELVIN L. HAIR and ESTHER HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

AND

RICHARD E. HAIR and NAOMI L. HAIR, his wife,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

On Petitions For Review of Decisions of The Tax Court of the United States (Tax Court Nos. 3297-65 and 5001-65)

REPLY BRIEF OF PETITIONERS

Correction of Error

Nota Bene—An inaccuracy at page 37 of Petitioners' Opening Brief. The quotation there is not from **Wood v. United States** but from **Crowell Land & Mineral Corporation v. Commissioner,** 242 F (2d) 864, at 866 appearing in a footnote (24) in **Wood v. United States,** 377 F (2d) 300 at page 311. Regretfully, when proof was read on the Brief we failed to catch this error, discovered while writing this Reply Brief. The Clerk of this Court and opposing counsel have been notified of this unfortunate mistake.

RESTATEMENT OF THE CASE

The total circumstances, including objective tests of the intentions of the contracting parties as evidenced by the contract of "sale" and "purchase," Exhibit 6F (R. 84-87), should govern determination of the facts within the ambit of the law—even in a tax case.

> "The retention of an economic interest in oil property (or sand and gravel on a farm) is not necessarily dispositive in every case where the question arises as to whether the proceeds from a conveyance of rights therein shall be treated as capital gain or as ordinary income for tax purposes. Cf. **United States v. White,** 10 Cir., 311 F (2d) 399. It is the substance and effect of the entire transaction which must be examined . . ." (Interpolations ours.)

Wiseman v. Barby, 380 F (2d) 121, 122 (C. A. 10, 1967) (A case wherein facts were stipulated.)

Congress also intended sand and gravel when sold or exchanged to be treated as a capital asset under 26 U.S.C.A. Section 1221, when not sold by one engaged in the sale of such materials in the ordinary course of business.

> Cf. **Gowans v. Commissioner,** 246 F (2d) 448 (C. A. 9, 1957)
>
> **Linehan v. Commissioner,** 297 F (2d) 276 (C. A. 1, 1961)
>
> **Crowell Land & Mineral Corp. v. Commissioner,** 242 F (2d) 864 (C. A. 5, 1957)
>
> **Barker v. Commissioner,** 250 F (2d) 195 (C. A. 2, 1957)
>
> **Remer v. Commissioner,** 260 F (2d) 337 (C. A. 8, 1958)
>
> **United States v. White,** 311 F (2d) 399, (C. A. 10, 1962)

Respondent also errs, as did the Tax Court, in attempting to equate this case with the royalty, lease and license line of cases best illustrated by **Wood v. United States,** 377 F (2d) 300 (C. A. 5, 1967), certiorari denied December 5, 1967, (36 Law Week 3227) (R. Br. pp. 17, 18, 20, 22; Pet. Br. pp. 32-37).

The Fifth Circuit in **Wood** did not overrule but merely distinguished the above cited cases from the Ninth, First, Fifth, Second, Eighth and Tenth Circuits which are similar, in principle, to the cases at bar.

377 F (2d) at 307-312

Respondent and the Tax Court overlooked the facts indicating clearly that the parties to the contract of purchase, Exhibit 6F (R. 84-87) determined the quantity of material sold **with reasonable accuracy** by boring tests prior to delivery of the contract. (R. 42) See discussion of **Gowans v. Commissioner,** 246 F (2d) 448 (C. A. 9, 1957) in **Wood v. United States,** 377 F (2d) 300 at 310.

The contract contained no escape clause for either seller or purchaser. There was no reservation of title in the sellers. Title to all the commercially valuable sand and gravel on the described acreage and constructive possession went to the purchaser on delivery of the contract. (Exhibit 6F) Curtis then performed the contract, a typical capital asset sale.[1]

Curtis, under the contract, had the lawful right to mine the sand and gravel on the described land to exhaustion to fulfill his subcontract at the government

(1) See Uniform Sales Act provisions set forth in Appendix, p. A-1 of this Reply Brief.

damsite. This was the dominant purpose of the contract which, we submit, could have been enforced specifically by either petitioners or by Curtis had it been breached.

> See 4 **Pomeroy, Equity Jurisprudence**, (5th ed.), Sections 1400-1403, pp. 1032-1040.

The contract, Exhibit 6F, was not a vague, unenforceable open-end lease or royalty agreement like that in the **Wood** line of cases, as respondent contends throughout its Brief. Mutuality of obligation gave rise to mutuality of remedy and either party could have enforced performance of the contract, Exhibit 6F.

REPLY TO ARGUMENT

Respondent's Brief, p. 8, states:

> "The construction company was not obligated to mine or pay for any particular amount of materials. The Tax Court was clearly correct in ruling that the payments were depletable ordinary income to the taxpayers, not capital gain as they contend."

Curtis was obligated to remove and pay for all the sand and gravel necessary to perform his subcontract at the Snake River damsite.[2] (R. 84-87; 40-48) Exhibit 6F was a typical contract of sale, not a lease, license or royalty agreement.

> **Linehan v. Commissioner**, 297 F (2d) 276 (C. A. 1, 1961)

(2) Had petitioners not sold their sand and gravel to Curtis, the Government had the right to condemn their land under power of eminent domain.

Respondent argues that Curtis, in effect, had a mere option to take or not to take sand and gravel, inferring that Exhibit 6F was not an enforceable contract of sale and purchase. Only speculation and fictional thinking can offset the expressed intention of the parties to Exhibit 6F which, after all, was fully performed. The taxable event was the sale of the capital assets consistent with 26 U.S.C.A. Section 1221.

Performance of the contract is the best evidence of the intention of the parties and both knew the res of the contract was the amount of materials needed by Curtis to fulfill his subcontract. The price was carefully specified to be paid after each monthly removal indicating clearly no reservation of any "economic interest" in the blocked out sand and gravel described in the contract (R. 42).

> "It is evident that the taxpayer had no 'economic interest' in the material taken from his property after its severance, for in every instance he sold sand and gravel for fixed prices per cubic yard without reference to the prices received or the profits, if any, made by the exploiters."
>
> **Remer v. Commissioner**, 260 F (2d) 337 (C. A. 8, 1958)

See also, **Turner v. United States,** 226 F. Supp. 970 (D., Me., S.D., 1964).

Therefore, there could be no depletion allowance to petitioners because they parted with all interest in the blocked out sand and gravel and reserved no economic interest in it.

> See **Barker v. Commissioner**, 250 F (2d) 195 (C. A. 2, 1957)

The depletion allowance relates only to gradual exhaustion of a capital investment in the mineral or hard material deposits and "is designed to permit a recoupment of the owner's capital investment in the minerals so that when the minerals are exhausted, the owner's capital is unimpaired." **Commissioner v. Southwest Expl. Co.,** 350 U. S. 308, 312. (R. Br. p. 12) Petitioners did not seek gradual exhaustion of the sand and gravel sold to Curtis. The purchase price paid by Curtis was not production income, rent or royalties. There was a conversion of capital assets into purchase price and petitioners did not look **solely** to the extraction for their return of capital.

Bankers Coal Co., v. Burnet, 287 U. S. 308, decided before **Linehan v. Commissioner** and **Gowans v. Commissioner,** was a typical royalty case, and is not in conflict with **Linehan, Gowans, Remer, Turner** and other cases relied upon by petitioners involving conversion of capital assets. (R. Br. 17-19)

The assumption of respondent that there may have remained on the described lands some "unmined sand and gravel" after the contract, Exhibit 6F, was terminated following performance, is a non sequitur. In absence of proof in the record, it cannot be assumed any commercially valuable materials remained. Curtis removed and paid for all he contracted to take for performance of his government subcontract, the Stipulation admits. (R. 40-48)

Petitioners were not collecting rents or royalties as the respondent and the Tax Court have determined.

Respondent persists in arguing (R. Br. 9, 10) Curtis was not obligated to remove or pay for any particular quantity of materials and was obligated to pay only for that he desired to remove. This is shallow interpretation of the contract, Exhibit 6F. It was carefully entered into and intended to be performed by both parties as a formal contract of sale and purchase, not a mere option or license. There was an obligation to perform by removal of the sand and gravel necessary to perform the Curtis government subcontract. (R. 40-48; R. 84-87)

Cf. **Ogden v. Saunders**, 12 Wheat (U. S.) 213, 6 L. Ed. 606

We accept the principles derived from the Supreme Court cases referred to pp. 10-17, Respondent's Brief. But, the facts in this case bring petitioners' transaction with Curtis within the line of cases above set forth, p. 2 of this Reply Brief. Simply stated, petitioners made an absolute sale of sand and gravel and retained no economic interest in the sand and gravel removed and paid for by Curtis.

Petitioners looked to Curtis for payment, not to mere extraction of the materials nor to a sharing in the resale price or profits received by Curtis.

Remer v. Commissioner, 260 F (2d) 337 (C. A. 8, 1958)

As we indicated in Petitioners' Opening Brief, pp. 32-36, all of the five cases in which certiorari was denied December 5, 1967, referred to pp. 16, 17, Respondent's Brief, are lease or royalty cases involving parties engaged in the sand and gravel or hard minerals business for their ordinary income. This, we believe, is suf-

ficient to enable this Court to distinguish those cases from the sales case at bar.

Wood v. United States, 377 F (2d) 300, particularly indicates that the lease and royalty cases in their very nature involve reservation of "economic interest" in the lessor or licensor owner in the materials involved.

In our case, there was neither reservation nor did economic interest revert, as contended by respondent.

Wood, quotes **Burnet v. Harmel,** 287 U. S. 103, at 106:

> "The provisions . . . for taxing capital gains at a lower rate . . . were adopted to relieve the taxpayer from these excessive tax burdens on gains resulting from a conversion of capital investments, and to remove the deterrent effect of those burdens on such conversions."

The Court in **Wood,** 377 F (2d) 300, at 305, then notes significantly that

> "taxation of the receipts **of the lessor** as income does not ordinarily produce the kind of hardship aimed at by the capital gains provision of the taxing act," (Emphasis ours)

again quoting **Burnet v. Harmel.**

Wood then pointed out that in "typical" lease cases it is presumed that "economic interest" is reserved unto the lessor. 377 F (2d) at 305.

As stated in **Rabiner v. Bacon,** 373 F (2d) 537, (C. A. 8, 1967), a case referred to in **Wood,** 377 F (2d) 300, at p. 307, it is difficult "to draw a distinction between a transaction constituting a sale of minerals and one which retains an economic interest in the minerals."

373 F (2d) at 539. The Eighth Circuit Court then went on to point out that a "Lease Contract" was involved in **Rabiner** requiring payment of "rent" and retention of economic interest must be presumed. **Rabiner** distinguished **Remer,** 260 F (2d) 337 (C. A. 8, 1958) as involving "an absolute sale under warrant of title" with no retention of "interest in the property sold." This would justify, we submit, the sale classification sought by petitioners in these cases.

In principle, the "sale and purchase" contract case at bar is more like **Linehan v. Commissioner,** 297 F (2d) 276, (C. A. 1, 1961), **Barker v. Commissioner,** 250 F (2d) 195 (C. A. 2, 1957) and **Gowans v. Commissioner,** 246 F (2d) 448 (C. A. 9, 1957); also **Crowell Land & Mineral Corp. v. Commissioner,** 242 F (2d) 864 rather than **Albritton v. Commissioner,** 248 F (2d) 49 (C. A. 5, 1957) and other cases relied upon in **Wood v. United States,** 377 F (2d) 300, the leading case on royalties.

In **Barker,** Judge Medina emphasized that when title passes to the purchaser there can remain no basis for depletion allowance for lack of economic interest in the seller.

In **Linehan** the contracting parties clearly spelled out a sale of minerals in place rather accurately blocked out, estimated and described and paid for at a fixed rate per cubic yard. The Court said:

> "Turning then to the true substance of the transactions . . . it is evident that the taxpayer had no 'economic interest' in the material taken from his property after its severance, for in every instance he sold sand and gravel for fixed prices per cubic yard without reference to the prices received or the profits, if any, made by the exploiters."

In **Crowell,** which, with **Gowans,** was relied upon in **Barker** by Judge Medina, there was a "contract of sale," with fixed per unit prices for the materials removed and paid for. Strong emphasis was placed on the wording of the contract as an unambiguous contract of sale and purchase.

It is important that although **Crowell** is a Fifth Circuit case, it was not overruled in **Wood v. United States,** 377 F (2d) 300, 310-311, but was distinguished and found to be a "sale" not a "lease" or "royalty" situation.

Finally, analyzing the Ninth Circuit case, **Gowans v. Commissioner,** 246 F (2d) 448, the Fifth Circuit in **Wood** again justified the allowance of capital gains treatment of payments made under a contract of sale of sand. 377 F (2d) at 310.

In **Gowans** the form of the contract was that of a sale.

The Court, in **Wood,** 377 F (2d) at 310 said concerning **Gowans:**

> " . . . the buyer was obligated to remove all of the sand and that the quantity of the sand had been determined 'with great accuracy' prior to execution of the agreement."

Just so here, after Curtis, the purchaser, established the quantity needed by borings, the petitioners sold all the commercially valuable sand and gravel on the described lands of petitioners to Curtis under Exhibit 6F. It was removed and paid for in performance of the contract. (R. 42-43)

This solution is also consistent with the rule in the

Tax Court as indicated in **Robert M. Dann,** 1958, 30 T. C. 499, where it was held that a requirement that all sand and gravel be removed is indicative of a sale.[3]

CONCLUSION

When the contract, Exhibit 6F, was delivered, property interests in all of the sand and gravel passed to Curtis. No economic interest remained in petitioners after its removal which could preclude the benefits of capital gain tax treatment under U.S.C.A. Section 1221.

A contract of sale should not be converted into a royalty agreement or license or option agreement by mere magical reasoning, based on fiction.

It was grossly inaccurate for respondent to say (R. Br. 23):

> "So, here, Curtis had no affirmative duty to mine at all, and could terminate their operations at any time without any liability except to pay for the minerals already mined."

Courts must resist destruction of a contract as unenforceable for lack of certainty and endeavor to discover the true intent and then attempt to carry it out.

> **Olson v. Balch,** 63 Wn. (2d) 938, 389 P. (2d) 900 (1964)
>
> **Janzen v. Phillips,** 73 Wn. (2d) 172, ... P (2d) .... (1968)

Contract law would imply a duty to perform, assuming Exhibit 6F is deemed ambiguous and not sufficiently expressed in the words of the instrument.

---

(3) Dann's case was reversed in Linehan v. Commissioner, 297 F (2d) 276 but not on this point.

Cf. **Ogden v. Saunders,** 12 Wheat (U. S.) 213, 6 L. Ed. 606

The Tax Court, we believe, should be reversed as a matter of law and **public policy** as well. Otherwise, it would appear, contrary to Congressional intent, sand and gravel, or other materials in place upon lands, can never be sold as capital assets upon a capital gain tax basis as intended by 26 U.S.C.A. Section 1221.

Respectfully submitted,

CAMERON SHERWOOD
of SHERWOOD, TUGMAN and GREEN

Attorneys for Petitioners

601-611 Baker Building
Walla Walla, Washington 99362
Telephone: JAckson 9-1540

APPENDIX TO PERTINENT WASHINGTON UNIFORM SALES ACT PROVISIONS

R.C.W. 63.04.070 "**Undivided shares.** (1) There may be a contract to sell or a sale of an undivided share of goods. If the parties intend to effect a present sale, the buyer, by force of the agreement, becomes an owner in common with the owner or owners of the remaining shares.

"(2) In the case of fungible goods, there may be a sale of an undivided share of a specific mass, though the seller purports to sell and the buyer to buy a definite number, weight or measure of the goods in the mass, and though the number, weight or measure of the goods in the mass is undetermined. By such a sale the buyer becomes owner in common of such a share of the mass as the number, weight or measure bought bears to the number, weight or measure of the mass. If the mass contains less than the number, weight or measure bought, the buyer becomes the owner of the whole mass, and the seller is bound to make good the deficiency from similar goods unless a contrary intent appears. [1925 ex.s. c 142 §6; RRS §5836-6.]"

R.C.W. 63.04.190 "**Property in specific goods passes when parties so intend.** (1) Where there is a contract to sell specific or ascertained goods, the property in them is transferred to the buyer at such time as the parties to the contract intend it to be transferred.

"(2) For the purpose of ascertaining the intention of the parties, regard shall be had to the terms of the contract, the conduct of the parties, usages of trade and the circumstances of the case. [1925 ex.s. c 142 §18; RRS §5836-18.]"

R.C.W. 63.04.200 "**Rules for ascertaining intention.** Unless a different intention appears, the following are rules for ascertaining the intention of the

parties as to the time at which the property in the goods is to pass to the buyer:

"**Rule 1.** Where there is an unconditional contract to sell specific goods, in a deliverable state, the property in the goods passes to the buyer when the contract is made, and it is immaterial whether the time of payment, or the time of delivery, or both, be postponed. . . ."

R.C.W. 63.04.230 "**Risk of loss.** Unless otherwise agreed, the goods remain at the seller's risk until the property therein is transferred to the buyer, but when the property therein is transferred to the buyer the goods are at the buyer's risk whether delivery has been made or not, except that:

"(a) Where delivery of the goods has been made to the buyer, or to a bailee for the buyer, in pursuance of the contract and the property in the goods has been retained by the seller merely to secure performance by the buyer of his obligations under the contract, the goods are at the buyer's risk from the time of such delivery.

"(b) Where delivery has been delayed through the fault of either buyer or seller the goods are at the risk of the party in fault as regards any loss which might not have occurred but for such fault. [1925 ex.s. c 142 §22; RRS §5836-22.]"

APPENDIX OF JOINT EXHIBITS REFERRED TO IN THIS BRIEF

Exhibit No. 6F 2, 3, 4, 5, 6, 7, 10, 11

CERTIFICATE OF COUNSEL

Cameron Sherwood, one of attorneys for Petitioners, states:

I certify that, in connection with the preparation of this Brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing Brief is in full compliance with these rules.

....

CAMERON SHERWOOD
of SHERWOOD, TUGMAN and GREEN
Attorneys for Petitioners

601-611 Baker Building
Walla Walla, Washington 99362
Telephone: JAckson 9-1540